DRIVEN TO REMAIN

# FIRST.

BAHAMAS FIRST HOLDINGS

2015 ANNUAL REPORT

# BAHAMAS FIRST HOLDINGS LIMITED
## 2015 ANNUAL REPORT
## & CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements in this report include the accounts of Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries which are collectively referred to as the "Group". The subsidiaries are as follows: Bahamas First General Insurance Company Limited ("BFG"), Cayman First Insurance Company Limited ("CFI"), Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA"), Bahamas First Corporate Services Ltd. ("BFCS"), First Response Limited ("FRL") and BFH International Limited ("BFHIL").

## INSIDE



# 2015 ANNUAL REPORT

## CHAIRMAN'S MESSAGE

## IAN D. FAIR

**I am pleased to report another year of excellent results for the Bahamas First Group, despite the claims as a result of Hurricane Joaquin, which caused considerable damage in the southern islands. I shall leave the President to report in more detail, but suffice to say that both The Bahamas and Cayman performed at a most satisfactory level. The world continued to be a most challenging place in which to conduct business. The global financial markets were wracked with negative news, particularly in the last quarter, brought about by multiple causes coming together to force what euphemistically may be termed "A Perfect Storm".**

> " We have an excellent brand and must seek to leverage it in order to grow the business in an orderly and profitable manner "

Multiple contributors have created this situation:

- a significant slowdown of growth in China as it transitions its economy from an emphasis on supply to one of demand (a natural occurrence as an economy develops, but one which is always going to be fraught with challenges);
- the migration crisis in Europe (largely caused by the seemingly insolvable civil war in Syria);
- a precipitous drop in the price of oil, coupled with virtually all other metals and natural resources; and
- multiple challenges in the developing world ( for instance Brazil and Venezuela, to name just two).

The combination of these factors has resulted in a drop in financial markets worldwide and a run to the safe haven currency – the US Dollar. Adding to this are the rhetorical excesses and distraction of the forthcoming U.S. Presidential election in November, 2016.

In previous annual messages I have emphasized the need for us as a Group to both recognize and balance our attention on all stakeholders; that is our shareholders, customers, partners (e.g. Agents and Reinsurers), staff and the communities in which we operate. This is a strong and continuing trend worldwide and one which we cannot ignore.

In The Economist publication "The World in 2016" there is an excellent article entitled "Just Business" by Paul Tudor Jones, which highlights the activities of JUST Capital, a US non-profit organization. This year JUST will launch an index which will seek to track the largest 1,000 companies in the USA against the issues deemed to be the most important by the public, particularly as they relate to income inequality and the fate of the average worker. The idea of what they describe as a "people's index" is to encourage a more balanced corporate behaviour which will likely have a greater positive effect than government policy. The general consensus is that companies can play a positive role in building a more just society and that the public is willing to give credit to those entities that try to do so. JUST's work has found that a strong majority of both investors and non-investors that were polled believe that companies should do a better job of balancing the interests of all stakeholders. Further, that this will influence their decisions on who they seek to work for, what companies they will buy from and which firms they will invest in. Bahamas First has had this as one of its long term strategies for some years now and we continue to view this as an important factor behind our continuing and future success.

Your Board continues to monitor and review current activities at the same time as exploring opportunities to build on our success to date. We have an excellent "brand" and must seek to leverage it in order to grow the business in an orderly and profitable manner. For instance, in early 2016 we completed the acquisition of the Van Stratton Agency in Marsh Harbour, Abaco, one of the fastest growing parts of The Bahamas, which we have rebranded as NUA in order to raise our profile and gain greater market penetration.

The theme for this annual report "Driven to Remain First" requires vision and focus for the future. It is a challenging environment, but I am confident that we are up to the task, particularly as we have such a hard working board and dedicated staff.

I wish to thank all of our stakeholders for your continued support.

## PRESIDENT'S MESSAGE

## PATRICK G.W. WARD

> "At every level throughout our organization we have seen the energy, focus and positive anticipation for both current and future prospects"

**Once again the Atlantic Hurricane season registered a below average level of tropical storm activity, with only four hurricanes developing, two of which became major storms; the latter being defined as at category three or above on the Saffir Simpson scale. Unfortunately, The Bahamas, along with Dominica, were the two nations in the Caribbean Region to suffer a degree of devastation from the two major Hurricanes Erika and Joaquin, with insured losses estimated at $512 million and $50 million, respectively. The loss of life and other economic losses are in some cases priceless, and will no doubt impact the various communities that were the hardest hit for many years to come.**

From a purely financial perspective, Hurricane Joaquin was a very manageable event for the Group, with some one hundred and twenty (120) claims resulting in gross claims of $5.3 million and net losses of $1.3 million. Despite a very challenging operating environment and the issues associated with Joaquin, we were able to finish the year with a very strong underwriting performance, with all business segments, across the Group, contributing positively to the ultimate bottom line for 2015. There are significant competitive headwinds at play in the Caribbean Region, as well as globally, for Property and Casualty (P&C) companies, and these challenges will continue to drive down top line growth prospects for the foreseeable future. The ability to generate a healthy underwriting result during the year, notwithstanding the impact of Joaquin, was mostly attributable to an improved performance in the Motor Account, and the very respectable returns achieved on the Health Account written in the Cayman Islands.

The combined ratio across all lines of business for 2015 was 89%, which is the same as the prior year outcome, despite the slightly elevated loss ratio of 46%, compared to 43% in 2014. The Net Underwriting Income of $28.5 million compares very favourably to the prior year result of $28.8 million which was a benchmark record performance for the Group.

One additional and significant factor that has also contributed to the overall positive outcome in the underwriting performance, particularly on the property lines of business, was the high level of discipline employed in both jurisdictions. This involved taking intentional steps to maintain a healthy spread between our cost of reinsurance and the original rates charged on our products that rely very heavily on reinsurance support.

The Group's profit for 2015 was $9.2 million, which is (8%) below the 2014 profit of $10 million, but very encouraging nonetheless. The Comprehensive Income for the year was $8.9 million, which is (9%) below the record result of $9.9 million earned in 2014. The Group's consistent normalized earnings power is clearly demonstrated when you adjust the Comprehensive Income for onetime or extraordinary events, and this has enabled us to generate a Return on Equity (ROE) of 15.4% for 2015, and a rolling three year average of 15.7%.

The 2015 results have also allowed the Board to approve a fairly substantial increase in the dividend payout during the year, improving to twelve (12) cents a common share, 20% more than the prior year payout of ten (10) cents. Notwithstanding the increased payout, the book value per common share increased to $1.44, which is an 8% increase over the 2014 value of $1.32. Also, for the first time in our history, we have achieved a Total Equity in excess of $60 million, providing a very strong level of capitalization on which to pursue our future plans.

As the Chairman has stated, our mandate as described in this year's theme is "Driven to Remain First" and this requires both vision and focus. Our market leading position allows us to sustain a measure of success with respect to matching the expectations of shareholders, while maintaining meaningful customer appeal through the consistent delivery of relevant products and services.

At every level throughout our organization we have seen the energy, focus and positive anticipation for both current and future prospects, and we are truly grateful for the genuine contribution from the entire team.

# SUMMARY OF RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2015

| | 2015 | 2014 | % Change | 2013 |
|---|---|---|---|---|
| **CONSOLIDATED STATEMENT OF FINANCIAL POSITION** | | | | |
| Total assets | 183,528 | 189,713 | -3% | 178,720 |
| Equity attributable to owners of the parent | 57,558 | 53,146 | 8% | 47,727 |
| **Book value per common share** | **1.44** | **1.32** | | **1.17** |
| **CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** | | | | |
| Gross premiums written | 143,361 | 152,229 | -6% | 161,319 |
| Net written premiums | 59,158 | 60,545 | -2% | 61,491 |
| Net premiums earned | 59,872 | 60,375 | -1% | 61,504 |
| Commission income | 23,153 | 24,506 | -6% | 23,369 |
| Net claims incurred | 27,336 | 25,808 | 6% | 27,608 |
| Net underwriting income | 28,500 | 28,796 | -1% | 24,823 |
| Other income | 2,252 | 2,261 | 0% | 2,277 |
| Total comprehensive income | 8,982 | 9,903 | -9% | 6,442 |
| Total comprehensive income | | | | |
| attributable to owners of the parent | 8,618 | 9,385 | -8% | 6,467 |
| **Earnings per common share** | **0.23** | **0.25** | | **0.15** |
| **RATIOS** | | | | |
| Solvency ratio | 97% | 88% | | 78% |
| Combined ratio | 89% | 89% | | 94% |
| Loss ratio | 46% | 43% | | 45% |
| Expense ratio | 37% | 36% | | 34% |

**BOOK VALUE PER COMMON SHARE** Equity attributable to owners of the parent, excluding preference shares, divided by total common shares outstanding at December 31st.

**SOLVENCY RATIO** Total equity attributable to owners of the parent as a % of net written premiums.

**COMBINED RATIO** Net underwriting & administrative expenses as a % of net premiums earned.

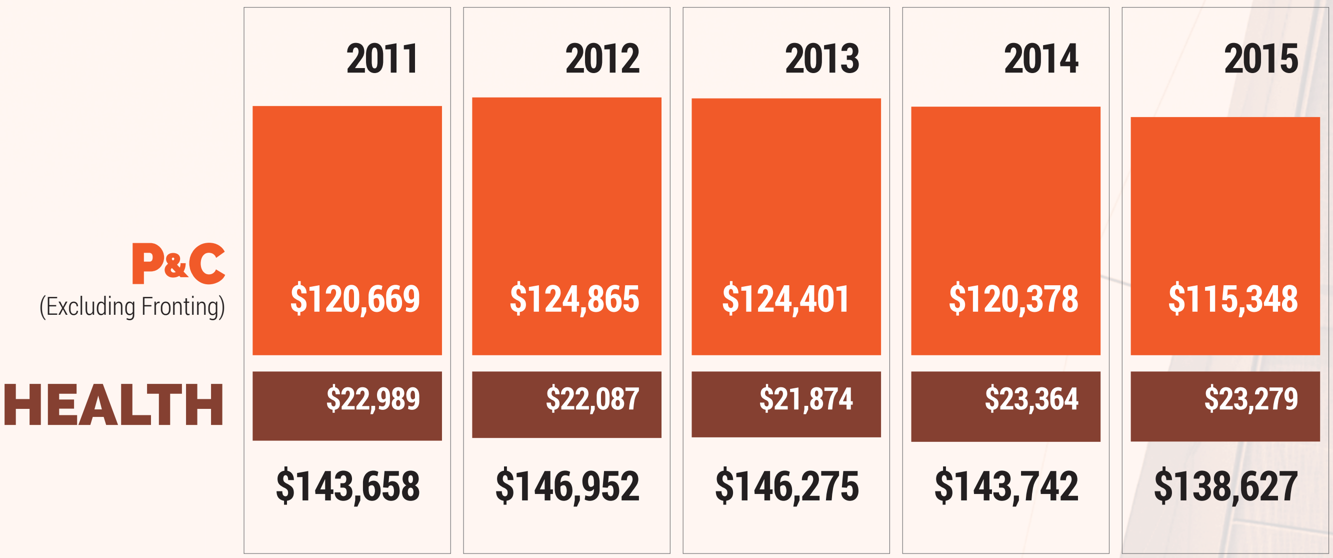
**LOSS RATIO** Net claims incurred as a % of net premiums earned.

**EXPENSE RATIO** Administrative expenses as a % of net premiums earned.

## **STRONG GROWTH** OF BUSINESS SEGMENTS

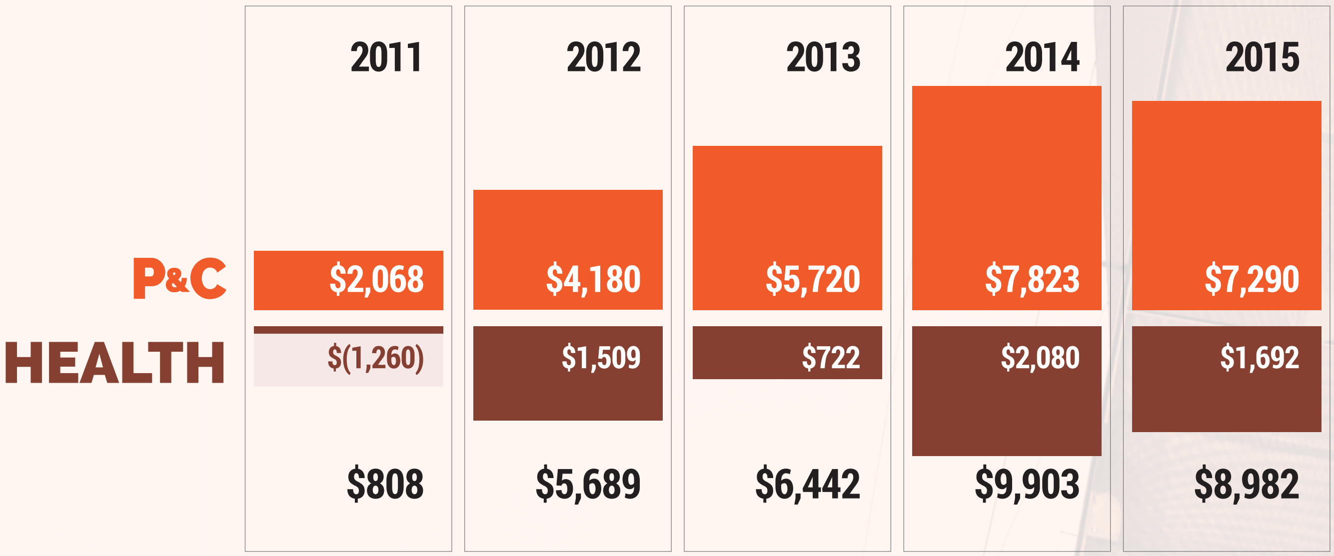
# Gross Premiums Written

('000's)




# Comprehensive Income

('000's)



## **ENHANCED** VALUE CREATION & RETURN ON EQUITY

# Increase of Book Value and Accumulated Paid Dividends

('000's)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Accumulated Paid Dividends** (cumulative since 2005) | $15,329 | $17,137 | $20,030 | $23,646 | $28,027 |
| **Book Value per share** | $1.01 | $1.08 | $1.17 | $1.32 | $1.44 |

# Return on Equity (ROE)

('000's)

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| **Average Total Equity** | $44,345 | $45,589 | $48,708 | $53,150 | $58,382 |
| **Annual ROE%** | 1.8% | 12.5% | 13.2% | 18.6% | 15.4% |
| **3 Year Average ROE%** | 5.9% | 6.8% | 9.2% | 14.8% | 15.7% |

# Finishing Strong in The Face of Challenges

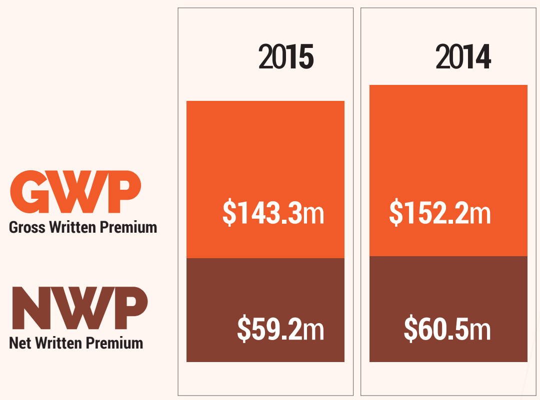
**The 2015 year was a period in which the robustness of our business model was tested, both with regard to our ability to overcome operational challenges and handle the issues associated with a natural catastrophe event. The characteristics of Hurricane Joaquin were unique in a number of ways, and there are many lessons to be learnt regarding the way in which the storm rapidly developed into a powerful category four (4) mega storm. There were also several underwriting considerations that were clear to see following its aftermath and these matters will inform our approach to the related lines of business in the future.**

On the strength of the very strong underlying performance of our core business in The Bahamas, the P&C segment in this location improved its overall contribution to the total profit, despite the impact of Hurricane Joaquin, and the year over year reduction in top line premiums. The Cayman P&C segment together with the Health segment combined for a 35% share of the Group's total profit in 2015, and given the very intense level of rate reductions in this market, this is a very respectable outcome indeed.

### Business Development

The prevailing market conditions at both the reinsurance and primary company levels are such that we fully expect a continuation of declining prices and, therefore, top line pressures which was certainly the case during 2015. Intense competition throughout the Caribbean Region continues to increase both in scope and scale with price reductions reaching levels that, not so long ago, were inconceivable. In such a scenario, it is even more important to maintain a prudent approach to both retention and new business acquisition strategies.

The gross written premium for 2015 fell to $143.3 million some 6% below the level achieved in 2014. The reduction in net written premiums was less pronounced, finishing at $59.2 million for 2015, compared to $60.5 million the year before.




Premium levels in The Bahamas have been affected by the imposition of the Value Added Tax (VAT) which commenced from the 1st July 2015 for insurance premiums. The 7.5% VAT on top of the existing 3% premium tax, both of which apply to the gross, was no doubt a factor that would have negatively impacted business production for the second half of 2015.

Unfortunately, the cost of insurance for some consumers would have been elevated to the point where it was no longer affordable. There were some bright spots in 2015, although they can easily be overshadowed by the trend of premium development over the course of year. The reduction in the top line masks the fact that our policy count in Cayman, generally, and for certain lines of business in The Bahamas, has actually increased when compared to 2014.

### Property

The property lines of business continue to be a very important part of our overall mix of business. In both The Bahamas and Cayman, the most intense competition for business surrounds this sector where price reductions year over year are in double digits in both locations.

In The Bahamas we have roughly the same amount of exposures on the books as was the case in 2014 and in the case of Cayman we have managed to grow the portfolio by a small margin, which, in the current climate, is a fairly significant achievement.

The overall portfolio of property business amounted to $71 million in 2015, and despite the occurrence of Hurricane Joaquin, we were able to generate underwriting profits in both jurisdictions. We will continue to price our property products in such a way so as to remain relevant to the marketplace, but always with a view to achieving a technically sound result across the portfolio.

### Motor/Liability

Our policy count in 2015 for motor in The Bahamas was relatively flat compared to 2014, but we saw an increase of 10% in policy count in Cayman as a result of specific underwriting actions aimed at growing the account on a targeted basis.

The overall premium levels for 2015 totaled $35 million, which is essentially flat compared to the prior year total.

*Continued...*

## YEAR IN REVIEW

### Finishing Strong in The Face of Challenges

*...Continued*

The underwriting results achieved in both locations were good, although Cayman saw a decline in its profitability compared to the prior year, as a result of a small number of high severity claims but we expect the position to normalize in the short term. The liability book continues to perform within expected parameters with a stable premium income.

#### Health

Health related claims generated a loss ratio of 71.4% during 2015, with a gross premium income of $23 million, which is 4% more than the prior year. While the claims experience is not as good as the prior year record result, 2015 represents the 4th consecutive year of underwriting profits which continue to make a meaningful contribution to the Group's bottom-line results.

#### Marine

We continue to write a stable marine portfolio of business which turned in a reasonable underwriting profit during 2015. We have taken steps to expand our capacity to take on certain types of risks that would not have been accepted in prior years.

#### Engineering

There has been little activity in the market that could drive real growth in this sector and the outlook does not look particularly promising for the short to mid-term. Fortunately the underwriting results have been good, and we will continue to provide appropriate solutions to the market for this line of business, with the ability to gear up or down as required.

#### Investments & Asset Management

Unfortunately, in The Bahamas we seem to be locked into a low growth, low inflation but high unemployment scenario. Added to this is the very low interest rate environment which tends to depress regular income from investments. This creates a less than ideal scenario for investments. The total investment returns for 2015 were $2.3 million, with a focus on fixed income securities.

During the fourth quarter of 2015, we utilized a significant amount of internal cash to settle the claims resulting from Hurricane Joaquin without making a cash call on the reinsurers that participate in the losses, but we will recover the amounts related to their share of the claims in the normal course of business. Consequently, net cash flows from operating activities declined to $4.3 million during 2015. Also, during the year, we accelerated the repayment of the outstanding loan in Cayman, which is detailed in note number 13 in the Audited Financial Statements.

Cayman First Insurance declared a dividend of $2 million in 2015, and 87.65% of this amount inured to the benefit of the Group. The construction for the new office complex in Cayman is expected to begin in the second quarter of 2016, and we expect to take up occupancy during the second half of 2017.

#### Capital & Risk Management

The Total Equity of the Group increased to $60.6 million, an increase of 8%, compared to 2014. Both CFI and BFG continue to maintain capital levels well above local regulatory and A M Best requirements. During January 2016, A M Best reaffirmed the rating of A-(Excellent) for both entities with a stable outlook in each case.

We continue to maintain a robust Enterprise Risk Management framework across the Group, and our internal audit requirements have now been outsourced to Ernst & Young, to facilitate access to a broader scope of expertise than would otherwise have been the case. While a full blown actuarial review for all lines of business is not yet required in both of the jurisdictions in which we operate, we have willingly elected to undergo such a review on an ongoing basis in order to provide our stakeholders with a high level of confidence around the technical reserves carried in the balance sheet.

#### Future Outlook

We were able to successfully negotiate our reinsurance program requirements for all of our Group companies with terms and conditions that provide a reasonable and competitive framework for trading in the prevailing market conditions. This is critically important to our strategic endeavours.

During the early course of 2016, the Board will review, assess and consider the parameters of the Group's strategic plans for the next three year business cycle. The way forward is clearly going to be challenging, more competitive and certainly more demanding. We, however, are also aware that many opportunities will emerge, and our goal is to ensure that we are ready to fully embrace these to our collective advantage.

**PATRICK G. W. WARD**
Group President & CEO

**GLEN O. A. RITCHIE**
Vice President & CFO

## 2015 GROUP ACTIVITIES



# FIRST LEADERS

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**BOTH INSIDE AND OUTSIDE the office, Bahamas First management and staff proved to be leaders throughout 2015. From raising funds to aid in relief efforts for Hurricane Joaquin to conducting an internal Health Fair and Blood Drive, Bahamas First experienced success in and out of the office in 2015. A few highlights are captured in the photos on this page.**

## The Five Levels of Leadership

1 Human resources and training focused on "The Five Levels of Leadership" based on the New York Times bestselling book authored by John C. Maxwell. The training was facilitated by Chris Fuller, a top trainer and keynote speaker for the John Maxwell Company. Leaders in both The Bahamas and Cayman participated in a highly interactive Five Levels of Leadership Workshop under the theme, "Reassessing the dynamics of a Winning Formula......It begins with Leadership". In the photo Chris Fuller presents a book to Patrick Ward who are flanked by Richenda King (left) and Nicole Leary (right).

## Junior Achievement Advisors

2 The Company's focus on youth was rewarded with its Junior Achievement Company receiving 1st place for their Annual Report submission and 3rd place for Company of the Year. These notable accolades would not have been possible without the dedicated efforts of the Company's team of Junior Achiever Advisors. Seated (L-R): Gina Sands, Criselle King, Cedric Smith, Nicole Leary, Shevia Ferguson. Standing (L-R): Marcia Johnson, Chandrice Ferguson, Raymond Imhoff, Drew-Erin Bartlett, Valya Gray.

## Bowling Champions

3 The Bahamas First Generals captured the 2014/2015 Bankers' Bowling League Championship. Seated (L-R): Abagale Brown, Carla Stafford (Co-captain), Nicole Williams, Shantel Wilson, Deborah McKinney, Margarita Newbold. Standing (L-R): Marvin Bain, Keith Rolle, Anthony Ingraham, Richard Darville (Co-captain), Mark Taylor, Glen Ritchie, Rashad Storr, Kevin Hudson.

## **NUA** - GROWTH DRIVEN


**NUA CONTINUED TO GROW its business with the acquisition of the portfolio of business from its largest sub-agent, Van Stratton Insurance Agency Limited (VSIA) in Abaco, following regulatory approval, which was obtained in December 2015. The move establishes a new branch operation for NUA in Marsh Harbour and expands its footprint in Abaco in a more direct way.**

4 Former VSIA employees, Kathy Whiting, Sabrina Sweeting and Leesa Sawyer have been retained while VSIA principal April Parotti will continue as a sub-agent of NUA in respect of new business. Shown (left) outside the Agency office are (L-R): Stanford Charlton, April Parotti and Warren Rolle and (below) Bahamas First and NUA leadership teams.

5 6 NUA has also taken steps to strengthen its management team with the promotion of Carla Stafford to Personal Lines Manager in its Nassau headquarters and the appointment of Gregory Williams as the Broking Unit Manager in the Harbour Bay Service Centre.

Gregory is a veteran insurance professional having been in the industry for more than 30 years. He joined NUA in 2009 during the merger of Carib into the NUA operation and most recently held the position of Broking Unit Supervisor. During Greg's career he has worked with a variety of local and foreign insurance/reinsurance markets, specializing in Marine, Aviation and Motor insurances. He also handles large insurance tenders. Gregory is an Associate of the Chartered Insurance Institute (UK) and a Chartered Insurance Broker.

Carla began her insurance career with T. Dan Albury Insurance Agency Ltd. in 1978. She was an Underwriter with the Company during the 1998 merger between the T. Dan Albury agency and Peter Cole & Associates Ltd. under the new Agency name of N.U.C.A. Insurance Agency. In 2001, following a name change to Nassau Underwriters Agency Insurance Agents & Brokers Limited, Carla's duties and responsibilities changed to Commercial Account Executive. Carla's diligence and great attention to customer service have been a boon for the Agency. She has also been instrumental in the Company's training programmes.

We extend congratulations to Greg and Carla on these well deserved promotions.

## **CAYMAN FIRST** IN 2015


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**THE PAST YEAR SAW Cayman First continue to be a force in the insurance market and the community in which it operates, led by Gordon Philip who was appointed to the Board of CFI in May of 2015, and was promoted to Managing Director. Some of the highlights of the past year are captured in the pictures below.**

## Our Classroom of The Month

1 CFI's Classroom of the Month brought company staff into schools in a programme designed to acknowledge and reward the team effort, as opposed to individual academic excellence. CFI joined up with a local television station to capture what happened in the classroom resulting in the bonus news coverage for its efforts.

## Hurricane Relief

2 Cayman staff voluntarily joined their colleagues in The Bahamas to raise funds to assist with relief efforts for the devastation caused by Hurricane Joaquin.

## Inclusion Training

3 Cayman staff had some Joy when they participated in Inclusion training in July 2015. Author Joy Baldridge facilitated personality profiling and how best to interact with the various personality types as part of the training. She also went over some of her popular nuggets for success, including the little yellow stretchy "Bob" in the photo which is a reminder to be AFA (always flexible and adaptable).

**SEVERAL YEARS AGO BFH assembled a cross functional collection of employees who were given the mandate to undertake specific internal projects with a view to improving workflow efficiency and customer service experiences.**

4 The project has been so successful that the Innovation Center was made an official unit within Bahamas First Corporate Services on January 1, 2015.

The core Innovation Center team is comprised of four graduates of the Future Leaders Development programme, who have different educational and functional backgrounds that have come together to create a team whose collective knowledge and skills complement the requirements of the unit.

The core IC team is also the former MITASA team, formed in 2010 to seek out ways in which technology could be used to improve customer service delivery, quality and efficiency.

Standing (L-R): Anadalino Sands and Jamaal Davis
Front (L-R): Drew Bartlett and Gina Sands, IC Manager

## **DRIVEN** TO LEAD

**CYCLE 3 OF FUTURE LEADERS Development Programme had eleven graduates in 2015 as the Company continues to build a cadre of leaders for its future growth. For the first time in the programme's history, staff members of contracted agents and brokers were invited to participate.**

1 Participants spend two years in the programme which is designed to prepare individuals to take on leadership roles within the Bahamas First Group and to satisfy personal and professional developmental goals. Standing (L-R) Arianne Braynen, Tanya Cartwright, Gabrielle McKenzie, Blair Bain and Alicia Culmer. Seated (L-R): Marcia Johnson, Devon Bethel and Valya Gray. Missing: Lia Munroe, Jeanine Capron and Rashanna Thompson.


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## SUPPORTING OUR COMMUNITIES

**THE BAHAMAS FIRST GROUP of Companies and its employees have a long history of community involvement and support for organizations which touch the lives of so many people in The Bahamas and the Cayman Islands. We are proud of the many employees who gave so unselfishly to our communities over the past year.**

### Bahamas First Donations & Sponsorships

A Familiar Walk - Disaster Preparedness Initiative
Antique Auto Club of The Bahamas
Bahamas AIDS Foundation
Bahamas Association for Social Health
Bahamas Basketball Federation
Bahamas District of Key Clubs
Bahamas District Pilot International
Bahamas Historical Society
Bahamas Insurance Association
Bahamas Red Cross Society
Bahamas Sickle Cell Association
Brain Minders
Cancer Society of The Bahamas
Canstruction
Defenders Against Delinquency
Disabled Persons' Organization
Full Scope Vision
Global Entrepreneurial & Trade Institute
Her Majesty's Correctional Facility
Kids Athletics
Kiwanis Clubs of The Bahamas
Kiwanis International
New Providence Basketball Association
New Providence Softball Association
Back to School Initiative
New Providence Volleyball Association
North Eleuthera Community Youth Program
Omega Psi Phi Fraternity
Royal Bahamas Police Force (RBPF)
RBPF Fire Services
RBPF Summer Youth Program - Grand Bahama
Red Rose Ball (Grand Bahama) Committee
Rotary Club of Southeast Nassau
Sir Jack Hayward High School Hospitality Department Management Program
Sister Sister Support Group
Special Olympics Bahamas
Susan G Komen Race For The Cure
The Children's Emergency Hostel
The Division Council of Kiwanis Clubs
The Gentlemans Club
The Heart Foundation
The Police Staff Association
The Ranfurley Home for Children
Timothy Education Program
Ultimate Dancers Junkanoo Group
Youth Against Violence
Z-Bandits Junkanoo Group
Various Churches and Sports Organizations

### Cayman First Donations & Sponsorships

BRAC – Business and Professional Women's Club
Breast Cancer Foundation
BRAC Lions Public Speaking Contest
BRAC Swim Club
BRAC Youth Camp
Caring For Life Foundation
Cayman Islands Cancer Society
Cayman Island Diabetes Association
C.I. Veterans Association
Dream Out Loud Foundation
Leadership Cayman (Chamber of Commerce)
National Council of Voluntary Organizations
Police Welfare Fund
RCIPS (Royal Cayman Islands Police Force Service)
Special Needs Foundation Cayman
St. Baldricks Foundation
The Cayman Islands Red Cross
The Lighthouse School
The Pines Retirement Home

# **DIRECTORS** & OFFICERS

**IAN FAIR** *
*Director*
*Since 1999*

Mr. Fair has been the Chairman of the Board and a member of the Board of Directors since 1999. He is also Chairman of Butterfield Trust (Bahamas) Limited. He was the founding Chairman of both The Bahamas Financial Services Board and the Bahamas International Securities Exchange.
–
***Chairman***

**JOHN DUNKLEY**
*Director*
*Since 1996*

Mr. Dunkley has been a Director since 1996. He was President and Managing Director of N.U.A. Insurance Brokers & Agents Ltd. up to December 31, 2010, and a Director of Bahamas First Corporate Services Ltd. He was also a Board member for Bahamas First General Insurance Company Limited from 1991 to 1997.

**PATRICK WARD** *
*Director*
*Since 1998*

Mr. Ward has been a Director since 1998 and prior to that President and Managing Director of Bahamas First General Insurance Company Ltd. He is President and CEO of Bahamas First Holdings Limited, Bahamas First General Insurance Company Limited and Bahamas First Corporate Services Ltd.
–
***Group President & CEO***

**JUDITH WHITEHEAD**
*Director*
*Since 2005*

A Director since 2005, Mrs. Whitehead is the Managing Partner of Graham Thompson & Co, a leading law firm in Nassau, Bahamas. She has served on various other company and civic boards.

**KAREN GAVAN** *
*Director*
*Since 2011*

A Director since June 2011, Ms. Gavan is President and Chief Executive Officer of Economical Mutual Insurance Company. She has 30 years of experience in the Canadian financial services industry. Ms. Gavan was formerly the Chief Operating Officer of Transamerica Life Canada and AEGON Fund Management Inc.

**ALISON TRECO** *
*Director*
*Since 2012*

Ms. Treco was appointed as a Director of the Bahamas First Holdings Limited and several of its subsidiary companies' boards in 2012. She also serves as Chairman of the Audit Committee. She is a Director of FT Consultants Ltd., a firm specializing in accounting advisory services.

* *Also a BFG Board Director*

# DIRECTORS & OFFICERS

**GLEN RITCHIE** *
*Director*
*Since 2012*

Mr. Ritchie was appointed as a Director of BFH in May 2012. He is Vice President and CFO of BFH, overseeing all financial, technology and risk management related functions within the Group. Prior to joining BFH, he held a number of senior management and leadership roles in both banking and insurance institutions in The Bahamas.

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***Vice President & CFO***

**LINDA GOSS** *
*Director*
*Since 2014*

Ms. Goss who was appointed a Director in March 2014 is Senior Vice President and Chief Actuary for Economical Mutual Insurance Company (Economical). She joined Economical in July 2000 as the assistant vice-president, actuarial services and became vice-president, actuarial services in July 2001.

**DR. SAMIR MIKHAEL**
*Director*
*Since 2015*

Dr. Mikhael was appointed to the Bahamas First Holdings board in July 2015. Prior to this he has served on the NUA board since 2004. Dr. Mikhael has been Chair of the Medical Staff at Doctors Hospital since 2003. A practicing Ophthalmic Surgeon, Dr. Mikhael holds several medical posts.

**NEIL MCKINNEY**
*Director*
*Since 2015*

Mr. McKinney worked in importing and retail for thirty years at John S. George until the business was sold in 2004. During that time he also served as President of the Bahamas Chamber of Commerce for two years. He is a longtime supporter of the Bahamas National Trust and also served as President of that organization for three years and currently serves there as a Council member. He is also a licensed realtor working at Bahama Islands Realty.

**J. LASHELL ADDERLEY**
*Secretary*

Miss Adderley is the Corporate Secretary of BFH and its subsidiary companies. She also serves as the Group's Legal and Compliance Manager. Prior to joining BFH, Miss Adderley worked as a Civil Litigation Attorney.

* *Also a BFG Board Director*

# CORPORATE GOVERNANCE

### AUDIT COMMITTEE

The Committee assists the Board in fulfilling its oversight responsibilities as they relate to the Group's accounting policies, financial reporting, internal control and the legal and regulatory environment.

**MEMBERS:**

Alison J. Treco
**Chairman**

Ian D. Fair
John A. G. Dunkley
Linda Goss
Neil McKinney

### CORPORATE GOVERNANCE CONDUCT REVIEW & NOMINATIONS COMMITTEE

The Committee measures the Group's governance against best practices and makes recommendations for Board appointments and composition.

**MEMBERS:**

Ian D. Fair
**Chairman**

Judith A. Whitehead
Karen L. Gavan

### HUMAN RESOURCES & COMPENSATION COMMITTEE

The Committee is responsible for reviewing and approving the Group's compensation plan, and evaluating executive performance.

**MEMBERS:**

Ian D. Fair
**Chairman**

Alison J. Treco
Samir Mikhael

### FINANCE & INVESTMENT COMMITTEE

The Committee focuses on two objectives: financial risk management and investment policy oversight.

**MEMBERS:**

Ian D. Fair
**Chairman**

Alison J. Treco
John A. G. Dunkley
Glen O. A. Ritchie
Patrick G. W. Ward
Karen L. Gavan
Neil McKinney

### TECHNICAL REVIEW & RISK COMPLIANCE COMMITTEE

The Committee is responsible for ensuring adherence to risk management guidelines as well as relates to reviewing and assessing technical and reinsurance matters.

**MEMBERS:**

Bryan D. Murphy
**Chairman**

Linda Goss
Ian D. Fair
Valarie F. Darville
John A. G. Dunkley
Glen O. A. Ritchie
Pauline P. Ward
V. Keith Rolle
Patrick G. W. Ward
Samir Mikhael
Denise Vaval
Bebie Farrington

### THE BFH GROUP RETIREMENT FUND COMMITTEE

Plan Administrator:
Colonial Pension Services (Bahamas) Limited

Trustee/Custodian:
Butterfield Trust (Bahamas) Limited

**INVESTMENT COMMITTEE:**

**Company Representatives:**
Glen O. A. Ritchie, Chairman
Independent Representative:
John A. G. Dunkley
Secretary

**Staff Representatives:**
Kevin Hudson
(Term: 2014-2016)
Warren T. Rolle
(Term: 2014-2017)

### HEAD OFFICE

Bahamas First Centre
32 Collins Avenue
Nassau, Bahamas
T: (242) 302-3900
F: (242) 302-3901

### AUDITORS

Deloitte & Touche
Chartered Accountants and Management Consultants
2nd Terrace, Centreville
Nassau, Bahamas

### INTERNAL AUDIT

Ernst & Young
One-Montague Place
East Bay Street
Nassau, Bahamas

### ATTORNEYS

**The Bahamas:**

Graham Thompson & Co.
Sassoon House
Shirley St. & Victoria Ave.
Nassau, Bahamas

**Cayman Islands:**

Maples and Calder
Ugland House
Grand Cayman
Cayman Islands

### REGISTRAR & TRANSFER AGENTS

Bahamas Central Securities Depository Limited (BCSD)
Suite 202, Fort Nassau Centre
British Colonial Hilton
Nassau, Bahamas

# AUTHORIZED AGENTS & BROKERS

**OUR EXTENSIVE NETWORK OF AGENTS in The Bahamas stretches from Grand Bahama to Inagua and everywhere in between. In the Cayman Islands, we enjoy the support of a vibrant network of agents and brokers for all of our product lines. They have been the backbone of our Company since we first offered insurance services, and continue to deliver the highest quality of service to our customers.**

## THE BAHAMAS

### New Providence

A Scott Fitzgerald Insurance Brokers & Agents
(242) 325-0865

Chandler Gilbert Insurance Associates Limited
(242) 676-2306

CMA Insurance Brokers & Agents
(242) 393-6735

Colina General Insurance Agents & Brokers Ltd.
(242) 677-2050

Confidence Insurance Brokers & Agents
(242) 323-6920

FG Insurance Agents & Brokers Limited
(242) 396-1300

N.U.A. Insurance Agents & Brokers Ltd.
(242) 302-9100

Professional Insurance Consultants
(242) 327-2143

Response Insurance Agency Ltd.
(242) 328-7316

RMS Insurance Agents & Brokers Limited
(242) 698-7233

Shield Insurance Agents & Brokers Ltd.
(242) 356-7202

Star General Insurance Agents & Brokers Ltd.
(242) 393-5529

Sunshine Insurance Agents & Brokers Ltd.
(242) 394-0011

Tavares Higgs Insurance Brokers & Agents
(242) 327-8606

### Abaco

Abaco Insurance Agency
(242) 367-2549

N.U.A. Insurance Agents & Brokers Ltd.
(242) 367-2222

### Grand Bahama

Freeport Insurance Agents & Brokers Limited
(242) 352-8501

N.U.A. Insurance Agents & Brokers Ltd.
(242) 352-7891

Star General Insurance Agents & Brokers (G.B.) Ltd.
(242) 352-5705

### Eleuthera

J.H. (Andy) Higgs Insurance Agents Ltd.
(242)333-4105

N.U.A. Insurance Agents & Brokers Ltd.
(242) 332-0451/2

## CAYMAN ISLANDS

### Cayman Brac

Brac Insurance Associates
(345) 948-2266

### Grand Cayman

AON Risk Solutions (Cayman)
(345) 945-1266

Balderamos Insurance Services
(345) 945-3450

Bogle Insurance Brokers
(345) 949-0579

Caribbean Insurance Practice
(345) 943-2475

Cayman Insurance Centre
(345) 949-4657

Fidelity Insurance (Cayman)
(345) 949-7221

First Financial Insurance Brokers
(345) 946-2276

FIS Insurance Brokers
(345) 945-5616

Hyperion Risk Solutions (Cayman)
(345) 623-6500

Island Insurance Brokers
(345) 949-0883

Marsh Management Services Cayman
(345) 949-7988

Pensum Services
(345) 945-1830

Premier Group Insurance Brokers
(345) 769-0092

Radmak Insurance Brokers
(345) 949-6829

Rossborough (Cayman Islands)
(345) 945-0030

Saxon Insurance Solutions (Cayman)
(345) 947-2966

Scotiabank (Cayman)
(345) 949-7666

Willis Management (Cayman)
(345) 946-2632

## 2015 FINANCIAL STATEMENTS



# **INDEPENDENT** AUDITORS' REPORT

**Deloitte & Touche**
Chartered Accountants
and Management Consultants
2nd Terrace, Centreville
P. O. Box N-7120
Nassau, Bahamas

Tel: +1 (242) 302-4800
Fax: +1 (242) 322-3101
www.deloitte.com

**To the Shareholders of**
**Bahamas First Holdings Limited:**

We have audited the consolidated financial statements of Bahamas First Holdings Limited (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Bahamas First Holdings Limited as at December 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche

**April 1, 2016**

A member firm of
**Deloitte Touche Tohmatsu**

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| ASSETS | Notes | 2015 | 2014 |
|---|---|---|---|
| Cash | | $ 16,872,221 | $ 20,908,231 |
| Term deposits | 6 | 623,149 | 2,047,957 |
| Trade accounts receivable, net | 4,9,23 | 24,704,364 | 24,306,344 |
| Sundry receivables and prepayments | 23 | 3,202,771 | 1,923,073 |
| Deferred commission costs | 10 | 4,758,007 | 5,138,365 |
| Deferred reinsurance premiums | 10 | 32,841,003 | 36,912,390 |
| Unpaid claims recoverable from reinsurers | 4,11 | 25,201,769 | 25,140,965 |
| Investments | 7 | 49,773,566 | 48,339,118 |
| Investment in associate | 8 | 619,151 | 610,947 |
| Property and equipment | 4,12 | 12,945,307 | 12,787,838 |
| Intangible assets and goodwill | 4,14 | 11,987,097 | 11,597,911 |
| **TOTAL** | | **$ 183,528,405** | **$ 189,713,139** |
| **LIABILITIES & EQUITY** | | | |
| LIABILITIES: | | | |
| Accrued liabilities | | $ 2,925,127 | $ 2,665,075 |
| Trade accounts payable | | 2,709,228 | 6,310,498 |
| Unearned commission income | 10 | 8,315,072 | 8,431,826 |
| Unearned premiums | 10 | 47,812,088 | 52,596,889 |
| Unpaid claims | 4,11 | 44,144,391 | 43,533,048 |
| Loan payable | 13 | 1,729,146 | 4,808,894 |
| Bonds payable | 15 | 15,248,438 | 15,248,438 |
| **Total liabilities** | | **122,883,490** | **133,594,668** |
| EQUITY: | | | |
| Common shares | 16 | 365,116 | 365,055 |
| Preference shares | 16 | 5,000,000 | 5,000,000 |
| Contributed surplus | 13 | 14,912,047 | 14,885,143 |
| Treasury shares | 16 | - | (497,886) |
| General reserve | 17 | 4,000,000 | 4,000,000 |
| Revaluation reserve | 18 | 2,944,911 | 3,171,822 |
| Retained earnings | | 30,335,868 | 26,221,895 |
| Total equity attributable to owners of the parent | | 57,557,942 | 53,146,029 |
| Non-controlling interest | | 3,086,973 | 2,972,442 |
| **Total equity** | | **60,644,915** | **56,118,471** |
| **TOTAL** | | **$ 183,528,405** | **$ 189,713,139** |

These consolidated financial statements were approved by the Board of Directors on March 11, 2016 and are signed on its behalf by:

Chairman
**Ian D. Fair**

Director
**Patrick G. W. Ward**

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| | Notes | 2015 | 2014 |
|---|---|---|---|
| **UNDERWRITING INCOME:** | | | |
| Gross premiums written | 19,23 | $ 143,360,757 | $ 152,228,886 |
| Movement in unearned premiums | 10 | 4,784,801 | 2,949,268 |
| | | 148,145,558 | 155,178,154 |
| Premiums ceded to reinsurers | | (84,202,283) | (91,683,919) |
| Movement in deferred reinsurance premiums | 10 | (4,071,387) | (3,118,772) |
| Net premiums earned | | 59,871,888 | 60,375,463 |
| Commission income | | 23,153,499 | 24,506,000 |
| Total underwriting income | | 83,025,387 | 84,881,463 |
| **UNDERWRITING EXPENSES:** | | | |
| Net claims incurred | 11 | 27,336,131 | 25,807,534 |
| Commission expense | 23 | 14,145,362 | 14,669,749 |
| Cost of excess of loss reinsurance | | 10,344,195 | 12,693,632 |
| Premium tax | | 2,699,672 | 2,914,470 |
| Total underwriting expenses | | 54,525,360 | 56,085,385 |
| Net underwriting income | | 28,500,027 | 28,796,078 |
| **OTHER EXPENSES:** | | | |
| Salaries, benefits and bonuses | 21,22,23 | 12,271,516 | 11,876,325 |
| General and administrative expenses | | 7,825,202 | 7,673,906 |
| Interest expense | | 1,143,090 | 1,136,815 |
| Depreciation and amortization of intangible assets | | 794,621 | 1,299,732 |
| Total other expenses | | 22,034,429 | 21,986,778 |
| NET TECHNICAL RESULTS | | 6,465,598 | 6,809,300 |
| INCREASE IN PROVISION FOR LITIGATION | | - | (4,253) |
| LITIGATION RECOVERY | | - | 1,094 |
| UNREALIZED GAIN ON INVESTMENT | 7 | 492,027 | 969,613 |
| OTHER INCOME, NET | 20 | 2,251,675 | 2,261,149 |
| **PROFIT FOR THE YEAR** | | **$ 9,209,300** | **$ 10,036,903** |
| ATTRIBUTABLE TO: | | | |
| OWNERS OF THE PARENT | | 8,810,514 | 9,489,114 |
| NON-CONTROLLING INTEREST | | 398,786 | 547,789 |
| | | **$ 9,209,300** | **$ 10,036,903** |
| **BASIC AND DILUTED EARNINGS PER COMMON SHARE** | 16 | **$ 0.23** | **$ 0.25** |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS & OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| | Notes | | 2015 | | 2014 |
|---|---|---|---|---|---|
| **PROFIT FOR THE YEAR** | | **$** | **9,209,300** | **$** | **10,036,903** |
| OTHER COMPREHENSIVE INCOME (LOSS): | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Reclassification adjustment of available-for-sale investment | 18,20 | | (91,714) | | - |
| Unrealized loss on available-for-sale investments | 7,18 | | (135,197) | | (133,841) |
| OTHER COMPREHENSIVE LOSS FOR THE YEAR | | | (226,911) | | (133,841) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **$** | **8,982,389** | **$** | **9,903,062** |
| ATTRIBUTABLE TO: | | | | | |
| OWNERS OF THE PARENT | | | 8,618,453 | | 9,384,854 |
| NON-CONTROLLING INTEREST | | | 363,936 | | 518,208 |
| | | **$** | **8,982,389** | **$** | **9,903,062** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| | ATTRIBUTABLE TO OWNERS OF THE PARENT | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Common Shares | Preference Shares | Contributed Surplus | Treasury Shares | General Reserve | Revaluation Reserve | Retained Earnings | Non-Controlling Interest | Total |
| **Balance at January 1, 2014** | **$ 365,055** | **$ 5,000,000** | **$ 14,884,862** | **$ (497,886)** | **$ 4,000,000** | **$ 3,305,663** | **$ 20,669,311** | **$ 2,454,234** | **$ 50,181,239** |
| Profit for the year | - | - | - | - | - | - | 9,518,695 | 518,208 | 10,036,903 |
| Other comprehensive loss (Notes 7,18) | - | - | - | - | - | (133,841) | - | - | (133,841) |
| Total comprehensive income (loss) | - | - | - | - | - | (133,841) | 9,518,695 | 518,208 | 9,903,062 |
| Non-controlling interest participation in CFI's rights offering (Note 13) | - | - | - | - | - | - | - | 1,241 | 1,241 |
| Purchase of shares in CFI (Note 13) | - | - | - | - | - | - | - | (960) | (960) |
| Change in shareholders' interest in CFI (Note 13) | - | - | 281 | - | - | - | - | (281) | - |
| Preference shares dividend paid (Note 16) | - | - | - | - | - | - | (350,000) | - | (350,000) |
| Dividends paid ($0.10 per common share) (Note 16) | - | - | - | - | - | - | (3,616,111) | - | (3,616,111) |
| **Balance at December 31, 2014** | **365,055** | **5,000,000** | **14,885,143** | **(497,886)** | **4,000,000** | **3,171,822** | **26,221,895** | **2,972,442** | **56,118,471** |
| Profit for the year | - | - | - | - | - | - | 8,845,364 | 363,936 | 9,209,300 |
| Other comprehensive loss (Notes 7,18) | - | - | - | - | - | (226,911) | - | - | (226,911) |
| Total comprehensive income (loss) | - | - | - | - | - | (226,911) | 8,845,364 | 363,936 | 8,982,389 |
| Staff share offering (Note 16) | 61 | - | 27,774 | 497,886 | - | - | - | - | 525,721 |
| Dividends paid by CFI | - | - | - | - | - | - | - | (247,275) | (247,275) |
| Purchase of shares in CFI (Note 13) | - | - | - | - | - | - | - | (3,000) | (3,000) |
| Change in shareholders' interest in CFI (Note 13) | - | - | (870) | - | - | - | - | 870 | - |
| Preference shares dividend paid (Note 16) | - | - | - | - | - | - | (350,000) | - | (350,000) |
| Dividends paid ($0.12 per common share) (Note 16) | - | - | - | - | - | - | (4,381,391) | - | (4,381,391) |
| **Balance at December 31, 2015** | **$ 365,116** | **$ 5,000,000** | **$ 14,912,047** | **$ -** | **$ 4,000,000** | **$ 2,944,911** | **$ 30,335,868** | **$ 3,086,973** | **$ 60,644,915** |

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| CASH FLOWS FROM OPERATING ACTIVITIES: | Notes | 2015 | 2014 |
|---|---|---|---|
| Profit for the year | | $ 9,209,300 | $ 10,036,903 |
| Adjustments for: | | | |
| Depreciation | 12 | 661,307 | 1,163,084 |
| Amortization of intangible assets | 14 | 133,314 | 136,648 |
| Amortization of premiums and discounts on bonds | 7,20 | 168,176 | 185,196 |
| Share of net earnings of associate | 8,20 | (20,204) | (84,151) |
| Realized gains on sales of investments | 7,20 | (39,357) | (25,769) |
| Unrealized gain on investment | 7 | (492,027) | (969,613) |
| Net gain on sale of general insurance portfolio | 14 | - | (70,647) |
| Income attributed to non-controlling interest | | (363,936) | (518,208) |
| (Increase) decrease in trade accounts receivable, net | | (398,020) | 535,906 |
| (Increase) decrease in sundry receivables and prepayments | | (1,279,698) | 402,125 |
| Decrease (increase) in deferred commission costs | 10 | 380,358 | (14,528) |
| Decrease in deferred reinsurance premiums | 10 | 4,071,387 | 2,634,995 |
| Decrease in provision for litigation recoverable | | - | 1,180,925 |
| Increase in accrued liabilities | | 260,052 | 169,684 |
| (Decrease) increase in trade accounts payable | | (3,601,270) | 295,125 |
| (Decrease) increase in unearned commission income | 10 | (116,754) | 26,417 |
| Decrease in unearned premiums | 10 | (4,784,801) | (2,949,268) |
| Increase in net unpaid claims | 11 | 550,539 | 621,835 |
| Decrease in provision for litigation | | - | (1,260,000) |
| **Net cash from operating activities** | | **4,338,366** | **11,496,659** |

See notes to consolidated financial statements.

(CONTINUED)

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| CASH FLOWS FROM INVESTING ACTIVITIES: | Notes | 2015 | 2014 |
|---|---|---|---|
| Purchase of property and equipment | 12 | $ (818,776) | $ (2,821,751) |
| Proceeds from sale and maturity of investments | 7 | 6,333,117 | 5,836,761 |
| Purchase of investments | 7 | (7,631,268) | (12,588,363) |
| Acquisition of general insurance portfolio | 14 | (522,500) | - |
| Proceeds from sale of general insurance portfolio | 14 | - | 113,980 |
| Dividends received from associate | 8 | 12,000 | - |
| Decrease in term deposits | 6 | 1,424,808 | 3,387,262 |
| **Net cash used in investing activities** | | **(1,202,619)** | **(6,072,111)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | | |
| Preference shares dividend paid | 16 | (350,000) | (350,000) |
| Change in non-controlling interest | | 114,531 | 518,208 |
| Common shares dividend paid | 16 | (4,381,391) | (3,616,111) |
| Proceeds from staff share offering | 16 | 525,721 | - |
| Proceeds from borrowings | 13 | - | 5,000,000 |
| Repayments of loan payable | | (3,079,748) | (1,299,623) |
| Equity transactions between non-controlling interest | 13 | (870) | 281 |
| **Net cash (used in) from financing activities** | | **(7,171,757)** | **252,755** |
| **NET (DECREASE) INCREASE IN** | | | |
| **CASH AND CASH EQUIVALENTS** | | **(4,036,010)** | **5,677,303** |
| CASH AND CASH EQUIVALENTS: | | | |
| BEGINNING OF YEAR | | 20,908,231 | 15,230,928 |
| **END OF YEAR** | | **$ 16,872,221** | **$ 20,908,231** |
| **SUPPLEMENTAL CASH FLOW DISCLOSURES:** | | | |
| Interest received | | $ 1,750,878 | $ 1,705,937 |
| Dividends received | | $ 470,704 | $ 530,276 |
| Interest expense paid | | $ 1,143,090 | $ 1,136,815 |

See notes to consolidated financial statements.

(CONCLUDED)

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

## 1. GENERAL

Bahamas First Holdings Limited ("BFH" or the "Company") and its subsidiaries are incorporated under the laws of the Commonwealth of The Bahamas, except BFH International Limited ("BFHIL") and Cayman First Insurance Company Limited ("CFI"), which are incorporated under the laws (2009 Revision) of the Cayman Islands. These consolidated financial statements include the accounts of BFH and its subsidiaries, which are hereinafter collectively referred to as the "Group". The primary activity of the Group is the carrying on of general insurance business (property and casualty) and health and group life insurance. The subsidiaries are as follows:

**Registered insurers:**

- Bahamas First General Insurance Company Limited ("BFG")
- Cayman First Insurance Company Limited ("CFI")

**Registered insurance intermediaries:**

- Nassau Underwriters Agency Insurance Agents & Brokers Ltd. ("NUA")
- Carib Insurance Brokers & Agents Limited ("CIA")

**Management company:**

- Bahamas First Corporate Services Ltd. ("BFCS")

BFCS provides administrative and corporate services to the Group and charges management fees to the various Group companies, which are eliminated on consolidation.

**Claims servicing company:**

- First Response Limited ("FRL")

FRL provides motor claim roadside assistance and claim adjusting services to BFG.

**Insurance holding company:**

- BFH International Limited ("BFHIL")

All of the above subsidiaries are wholly-owned except for CFI. BFHIL acquired a 75.24% equity interest in Sagicor General Insurance (Cayman) Ltd. on June 17, 2010, with an effective date of January 1, 2010. Sagicor General Insurance (Cayman) Ltd. was renamed Cayman First Insurance Company Limited on August 4, 2010. Through participation in CFI's rights issuances in both May 2011 and June 2014, BFHIL has increased its equity holding in CFI to currently 87.65%. The registered office of the Group is located at 32 Collins Avenue, Nassau, Bahamas.

## 2. ADOPTION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND INTERNATIONAL ACCOUNTING STANDARDS (IAS)

In the current year, there were several new and amended Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB effective for annual reporting periods beginning on or after January 1, 2015. The adoption of these Standards and Interpretations has not led to any changes in the Company's accounting policies.

### a. Standards and Interpretations effective but not affecting the reported results or financial position

| | |
|---|---|
| IAS 16/38 | Property, Plant and Equipment/Intangible Assets: Revaluation Method – Proportionate Restatement of Accumulated Depreciation/Amortization |
| IAS 24 | Related Party Disclosures: Key Management Personnel |
| IAS 40 | Investment Property: Interrelationship between IFRS 3 and IAS 40 |
| IFRS 2 | Share-based Payment: Definitions of Vesting Conditions |
| IFRS 8 | Operating Segments: Aggregation of Operating Segments and Reconciliation of the Total of The Reportable Segments' Assets to the Entity's Assets |
| IFRS 13 | Fair Value Measurement (Scope of Paragraph 52) |

The above standards have been adopted and have not led to any material changes in the financial position of the Company during the current year.

b. **Standards and Interpretations in issue but not yet effective**

| | |
|---|---|
| IAS 1 | Disclosure Initiative |
| IAS 16/38 | Clarification of Acceptable Methods of Depreciation and Amortization |
| IAS 34 | Interim Financial Reporting: Disclosure of Information |
| IFRS 9 | Financial Instruments |
| IFRS 15 | Revenue from Contracts with Customers |
| IFRS 16 | Leases |

Management has not assessed whether the relevant adoption of these standards and interpretations in future periods will have a material impact on the consolidated financial statements of the Company.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of the significant accounting policies:

a. **Basis of preparation** - These consolidated financial statements have been prepared on the accrual basis and under the historical cost convention, except for certain investments measured at fair value and land and buildings, which are revalued every three years. The accounting policies are consistent with those used in the previous years.

b. **Basis of consolidation** - Subsidiaries are those enterprises controlled by BFH. Control exists when the Company is exposed, or has rights, to variable returns from its investment with an entity and has the ability to affect those returns through its power over the entity. In assessing control, the potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

c. **Business combinations** - Business combinations are accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the consideration transferred (measured at acquisition date fair value), and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition cost incurred is expensed. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interest's share of changes in equity since the date of the combination. Changes in the Company's ownership in a subsidiary that do not result in a loss of control are accounted for as equity transactions, and are recognized in contributed surplus in the consolidated statement of changes in equity.

d. **Investment in associates** - An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. The results, and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially carried at cost and the carrying amount is increased or decreased to recognize the Company's share of the profit or loss of the associate after the date of acquisition. Distributions received from the associate reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the Company's proportionate interest in the associate arising from changes in the associate's other comprehensive income. The Company's share of those changes is recognized in Other Income, net in the consolidated statement of profit or loss. After application of the equity method, the carrying amount of the investment is tested for impairment by comparing its recoverable amount with its carrying value. Losses of associates in excess of the Group's interest in those associates are not recognized. Where a company within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

e. **Financial instruments**

**Classification and measurement** - On initial recognition a financial asset or liability is measured at its fair value plus transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition financial assets are classified as either financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; or available-for-sale ("AFS"); and are measured at their fair values without any deduction for transaction costs, except for the following financial assets:

(i) loans and receivables and held-to-maturity financial instruments are measured at amortized cost using the effective interest rate method;
(ii) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the classification at each reporting date.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest method, except for financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value.

Term deposits are classified as held-to-maturity financial instruments. They have fixed or determinable payments and fixed maturity dates, and the Group has the intent and ability to hold them to maturity.

Trade accounts receivable, sundry receivables and receivable from reinsurers are classified as loans and receivables and are carried at cost, which equates to amortized cost, less provision for bad debts. Trade accounts payable and accrued liabilities are financial liabilities, which are carried at cost.

Investments in Bahamas Government Registered Stock are designated as held-to-maturity and are carried at amortized cost. Preference share and redeemable fixed rate note investments are classified as available-for-sale and are carried at cost, as this is considered to be the fair value at the consolidated statement of financial position date. Investment in fixed income debt securities and mutual funds are classified as available-for-sale and are carried at fair value. Gains and losses arising from changes in fair value of available-for-sale investments are recognized through the consolidated statement of profit or loss and other comprehensive income until the investments are disposed of or are determined to be permanently impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is included in profit or loss for the period. All other investments are classified as financial assets at fair value through profit or loss. They are measured at fair value with reference to market prices, or, for non-listed companies, financial information on the company. The gain or loss on investments classified as at fair value through profit or loss is recognized in the consolidated statement of profit or loss.

**Recognition and derecognition** - The Group recognizes a financial asset when it becomes a party to the contractual provisions of the instrument. The Group recognizes/derecognizes financial assets purchased or sold on the trade date.

Investments held-to-maturity are recognized/derecognized on the day they are transferred to/by the Group. Financial liabilities are derecognized when they are extinguished. For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the consolidated statement of profit or loss when it is derecognized or impaired, as well as through the amortization process.

f. **Trade accounts receivable** - Trade accounts receivable is stated at cost less provision for bad debts. The provision for bad debts is based on management's evaluation of the accounts receivable portfolio, as noted in Note 4 (iv).

g. **Property and equipment** - Property and equipment, other than freehold land and buildings, are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred in the construction or replacement of property and equipment is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the property and equipment. All other expenditure is recognized in the consolidated statement of profit or loss as an expense as incurred.

Depreciation is charged to the consolidated statement of profit or loss on a straight-line basis over the estimated useful lives. Land is not depreciated and expenditure incurred in the construction-in-progress is not depreciated until construction is completed.

The estimated useful lives are as follows:

| | |
|---|---|
| Building | 40 years |
| Furniture and equipment | 5 - 10 years |
| Leasehold improvements and others | 3 - 5 years |
| Computer software | 3 - 7 years |

Freehold land and buildings are stated at fair market value, based on independent professional appraisals, which are performed every three years. The fair value measurement is categorized in Level 3 in the fair value hiearchy. A revaluation increment is recorded in other comprehensive income unless it reverses a revaluation decrease of the same asset previously recognized as an expense and is transferred to retained earnings to the extent realized by complete or partial disposal of the related asset, including depreciation.

Any revaluation decrease is recognized as an expense unless it reverses a revaluation increase that was previously recognized in other comprehensive income. Any depreciation accumulated on an asset at the date of revaluation is eliminated against the gross carrying amount of the asset and the resulting net amount restated to the revalued amount of the asset. The accumulated depreciation is reduced or eliminated, and any remaining surplus is used to increase cost. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognized in Other Income, net in the consolidated statement of profit or loss.

h. **Intangible assets and goodwill** - On acquisition of an investment in an associate/subsidiary any goodwill arising (i.e. the excess of the cost of the investment over the investor's share of the net fair value of the identifiable assets, liabilities and contingent liabilities) is accounted for as follows:

(i) goodwill is included in the carrying amount of the investment for associate and is neither amortized nor individually tested for impairment. For subsidiaries, it is included as goodwill in the consolidated statement of financial position, and is tested for impairment at least annually.

(ii) other intangible assets identified on acquisition of a subsidiary are recognized only if future economic benefits attributable to the asset will flow to the Group, and if the fair value of the asset can be measured reliably. In addition, for purposes of recognition, the intangible asset must be separable from the business being acquired or must arise from contractual or legal rights. On acquisition, the useful life of the asset is estimated and determined to be either finite or indefinite.

(iii) any excess of the investor's share of the fair value of the net assets over the cost of the investment is included in the consolidated statement of profit or loss in the period in which the investment is acquired.

After initial recognition, an intangible asset with a finite useful life is amortized using the straight-line method over the estimated useful life of 15-20 years, and is included in general and administrative expenses in the consolidated statement of profit or loss. An intangible asset with an indefinite useful life is not amortized, but tested for impairment at least annually. An intangible asset shall be regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the Group.

An intangible asset shall be derecognized on disposal or when no future economic benefit is expected from its use or disposal. The gain or loss arising from the derecognition is recognized in the consolidated statement of profit or loss.

i. **Impairment** - The carrying amounts of the Group's assets, including goodwill and intangible assets are reviewed at each consolidated statement of financial position date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated statement of profit or loss.

An impairment loss in respect of held-to-maturity assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognized. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

j. **Insurance contracts**

**Product classification** - Insurance contracts are those that transfer significant insurance risk at the effective date of the contract. Insurance risk is transferred when the Group agrees to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Any contracts not meeting the definition of an insurance contract under IFRS 4 Insurance Contracts are classified as investment contracts. The main insurance contracts issued by the Group are as follows:

**Property and casualty ("P&C") insurance contracts -** Property and casualty contracts are generally one year renewable contracts issued by the Group covering insurance risks over property, motor, marine, engineering and general accident.

**Health and Group Life ("H&L") insurance contracts** - Health and Group Life contracts are one year renewable contracts. Health insurance contracts cover insureds for medical expenses incurred. Group Life insurance contracts protect the Group's customers from the consequences of events (such as death or disability). Guaranteed benefits paid on occurrence of the specified insurance event are fixed.

**Reinsurance contracts** - Contracts with reinsurers under which the Group is compensated for losses are classified as reinsurance contracts held. Insurance contracts in which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts held are recognized as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term recoverables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

The Company assesses its reinsurance assets for impairment on an ongoing basis. If there is objective evidence that the reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognizes that impairment loss in the consolidated statement of profit or loss.

**Portfolio Transfer In / (Out)** - At the option of the Company and at the anniversary date of the reinsurance agreements, proportional reinsurers agree to relinquish (assume) liability for all policies in force at such anniversary date. The Company debits (credits) the reinsurers with the related portion of the unearned premiums and unpaid claims calculated in accordance with the method outlined in the agreement.

**Premiums** - Premiums written are recognized as income over the periods covered by the related policies taking into consideration the exposure period to which they relate. The adjustment to apportion the gross premiums written and ceded over the life of the policy is made through the movement in the unearned premiums. Unearned premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

**Premiums ceded** - Premiums ceded to reinsurers are recognized as an expense over the periods covered by the related policies taking into consideration the exposure period to which they relate.

Deferred reinsurance premiums in the consolidated statement of financial position at year end represent the proportion of the premiums ceded which relate to periods of insurance subsequent to the consolidated statement of financial position date. This amount is calculated on a quarterly pro-rated basis.

k. **Unpaid claims and unpaid claims recoverable from reinsurers** - The provision for unpaid claims, and the reinsurers' share thereof, represents an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred on or before each consolidated statement of financial position date.The provision is periodically reviewed and evaluated in the light of emerging claims experience and changing circumstances. Changes in estimate of the ultimate liability are included in net claims incurred in the consolidated statement of profit or loss. At the date of the statement of financial position, liability adequacy tests are performed to ensure the adequacy of insurance contract liabilities, using current estimates of the related expected future cash flows. If a test indicates that the carrying value of insurance contract liabilities is inadequate, then the liabilities are adjusted to correct the deficiency. Management has engaged independent actuaries to assist in performing the liability adequacy test at year-end.

l. **Policy acquisition costs**

**Deferred and unearned commissions** - At year end, deferred and unearned commissions represent the proportion of the commission paid to agents and brokers and received from reinsurers which related to periods of insurance subsequent to the consolidated statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

**Commission income and expense** - Base commissions paid to agents and received from insurers and reinsurers are calculated based on gross premiums written and reinsured. Base commissions paid and received are adjusted so that they are recognized over the period covered by the related policies taking into consideration the exposure period to which they relate.

Profit commissions received from reinsurers and non-group insurers, calculated based on past underwriting results, are received from other insurance companies for whom Group agents may act and from the Group's reinsurers. The agency profit commissions and reinsurance profit and override commissions are recorded on an accrual basis.

m. **Dividend and interest income** - Dividend income is recorded when the dividend is declared. Interest income is accounted for on an accrual basis.

n. **Investment premiums and discounts** - Premiums and discounts arising on acquisition of fixed income securities are amortized over the period remaining to maturity and are recognized in Other Income, net in the consolidated statement of profit or loss.

o. **Cash and cash equivalents** - Cash and cash equivalents consist of cash on hand and deposits with banks maturing within ninety days from the date of acquisition.

p. **Borrowings** - Borrowings are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, interest bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of profit or loss over the period of borrowing using the effective rate method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan and are capitalized, and included in sundry receivables and prepayments in the consolidated statement of financial position. Capitalized fees are amortized over the period of the facility to which it relates, and are included in general and administrative expenses in the consolidated statement of profit or loss.

q. **Share capital** - Shares are classified as equity when there is no obligation to transfer cash or other assets. Share capital is comprised of common and preference shares. The preference shares are non-voting and redeemable at the option of the Company. When common shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction in equity.

r. **Foreign currency translation** - The Group's functional and presentation currency is the Bahamian dollar. Assets and liabilities of the foreign subsidiary are translated from its functional currency into Bahamian dollars at the exchange rate in effect at the consolidated statement of financial position date for monetary assets and liabilities, and at historical rate in effect for non-monetary assets and liabilities. With the exception of amortization expense, revenues and expenses are translated at the rate at transaction date, which is approximated by the weighted average rate prevailing during the year. Amortization expense is translated at the same historic rate as the related asset. Adjustments resulting from the translation of the statement of financial position of the foreign operation are included in other comprehensive income (loss) in the consolidated statement of profit or loss and other comprehensive income.

s. **Related parties** - Related parties include:

- Key Management Personnel, close family members of Key Management Personnel, and entities which are controlled individually and/or jointly, or significantly influenced, or for which significant voting power is held, by Key Management Personnel or their close family members; or
- Non-Key Management Personnel who have significant influence over the Group and their close family members. Non-Key Management Personnel who control in excess of 10% of the outstanding common shares are considered to have significant influence over the Group.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group, being the Officers and Directors. Close family members include the spouse of Key and Non-Key Management Personnel and the children and dependents of Key and Non-Key Management Personnel or their spouse.

t. **Pension benefits** - The Group's employees participate in a defined contribution plan. Under the plan, the Group contributes a fixed percentage of annual salary that is expensed in the year. Once the contributions have been made, the Group has no further obligations. The expensed amount is included in salaries, benefits and bonuses in the consolidated statement of profit or loss.

u. **Share–based payments** - The Company has a share option plan for executives and, on occasion, a share subscription offer for employees. When the options are exercised the Company issues new shares and the proceeds received are credited to common shares and contributed surplus in the consolidated statement of changes in equity.

v. **Earnings per share** - Earnings per share is computed by dividing the profit attributable to the common shareholders by the weighted average number of common shares outstanding during the year.

The weighted average number of common shares outstanding during the year is the number of common shares outstanding at the beginning of the period, adjusted by the number of common shares repurchased or issued during the period multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year. There is no material difference between basic earnings per share and fully diluted earnings per share.

w. **Leases** - Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. All of the Group's leases are operating leases. Payments made under operating leases are recognized as an expense on a straight line basis over the term of the lease.

x. **Taxation** - Subsidiaries of the Group operating in The Bahamas are subject to tax on taxable gross premium income at the flat rate of 3% (2014: 3%) for premium tax; and at 7.5%, effective July 1, 2015, for value added tax (VAT). There are no other taxes on corporate income or capital gains levied on the Group in any of the jurisdictions in which the Company operates.

y. **Segment reporting** - In identifying its operating segments, management generally follows the Group's business operating activities by geographic location (Bahamas & Cayman). The Bahamas' segment includes general insurance only and Cayman's segment includes both general insurance and health and group life. General insurance comprises fire, motor, marine, engineering and general accident. The health and life insurance segment includes group life and medical insurance.

z. **Contingent liabilities** - A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Group or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably.

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that the Group will be required to settle that obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the expenditure required to settle that obligation at the reporting date and are discounted to present value. Potential recoveries from third parties are recognized as a receivable when it is virtually certain that the recoveries will be received and the amount can be measured reliably.

## 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### i. The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Group's most critical accounting estimate. There are several sources of uncertainty that need to be considered in the estimate of the amounts that the Group will ultimately pay to settle such claims.

The provision for unpaid claims is necessarily based on estimates due to the fact that ultimate disposition of claims incurred prior to the date of the consolidated statement of financial position, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include, inter alia, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, changes in medical costs and the cost of automobile and property repair materials and labour rates.

Any estimate of future costs is subject to the inherent uncertainties in predicting the course of future events. Consequently, the amounts recorded in respect of unpaid claims may change significantly in the short term. Management estimates and judgments are based on the Company's claims experience, relevant circumstances and/or advice from legal counsel.

Short-tail claims, such as for automobile and property damage, are normally reported soon after the incident and are generally settled within one to three months after the claims event. Health claims are normally reported within three months of the event and are usually settled within days of being reported.

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Information for long-tail claims such as casualty claims for bodily injury, general third party liability, employers' liability, workmen's compensation and long term disability may not be readily available. The provision for the long-tail claims is continually evaluated by management and is based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group does not establish provisions for catastrophes (such as natural disasters) in advance of the occurrence of such events. These events can cause significant volatility in the Group's level of incurred losses and the provision for unpaid claims.

The impact of critical accounting estimates and judgments on the ultimate liability arising from claims made under insurance contracts is partially mitigated through relief arising from reinsurance contracts held.

The carrying value at the consolidated statement of financial position date of gross claims reported and loss adjustment expenses and claims incurred but not reported was $44,144,391 (2014: $43,533,048). The amount of reinsurance recoveries estimated at the consolidated statement of financial position date is $25,201,769 (2014: $25,140,965).

Refer to Note 11 for further information on the provision for unpaid claims.

ii. **Pro-ration of Premiums and Commissions**

As described in Note 3j, unearned premiums and deferred reinsurance premiums at year end represent the proportion of the premiums which relate to periods of insurance subsequent to the consolidated statement of financial position date. Similarly as per Note 3l, deferred and unearned commissions at year end represent the proportion of the commission paid to agents and brokers and received from reinsurers which relate to periods of insurance subsequent to the consolidated statement of financial position date. These amounts are calculated on a quarterly pro-rated basis taking into consideration the exposure period to which they relate.

iii. **Impairment of goodwill and intangible assets**

Determining whether goodwill or intangible assets are impaired requires an estimation of (a) the value in use or (b) the fair value less costs to sell of the cash-generating unit or group of units to which the value has been allocated:

a) The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit(s) and a suitable discount rate in order to calculate present value, both of which are material sources of uncertainty.

b) The fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit(s) between knowledgeable willing parties, less the costs of disposal.

The carrying value at the consolidated statement of financial position date for intangible assets and goodwill was $11,987,097 (2014: $11,597,911).

iv. **Provision for bad debts**

As described in Note 3f, provision for bad debts is based on management's evaluation of the respective portfolios. This evaluation is based on the aged analysis of the trade accounts receivable. Trade accounts receivable, which is shown net of provision for bad debts, is comprised of (1) amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"); (2) clients of the Group's agency subsidiaries ("policyholders' receivables"); and (3) amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables"). Provisions are recorded for policyholders' receivables as follows:

| | |
|---|---|
| Over 6 months | 10% provision |
| Over 9 months | 20% provision |
| Over 1 year | 100% provision |

The carrying value at the consolidated statement of financial position date for trade accounts receivable, net was $24,704,364 (2014: $24,306,344).

**V. Depreciation**

Depreciation is based on management estimates of the future useful life of property and equipment. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the depreciation charges. The Company reviews the future useful life of property and equipment periodically, taking into consideration the factors mentioned above and all other important factors. In case of significant changes in the estimated useful lives, depreciation charges are adjusted prospectively.

**vi. Fair value of financial assets and liabilities**

The fair values of listed equities are based on current bid prices reported on recognized exchanges. The fair value of debt securities is based on either current bid prices reported on recognized exchanges or pricing data provided by internationally recognized pricing services. Mutual funds are carried at fair value based on the net asset value per share provided by the administrator of the fund. If prices are not readily available, the fair value is estimated using either dealer quotes or pricing models or discounted cash flow models or management's estimate of amounts that could be realized under current market conditions and which are based on observable market-based inputs when available. Where fair value has been determined using data provided by a recognized pricing service, dealer quotes, pricing models or net asset value per share, the Group has obtained an understanding of the methods, models and inputs used in pricing and has controls in place that management considers sufficient to validate that prices represent fair value.

Investments for which observable market prices do not exist are reported at fair value as determined in good faith by management. Fair value is based on the best information available and is determined by reference to information including, but not limited to the following: projected revenues, net earnings, earnings before interest, taxes, depreciation and amortization ("EBITDA"), book value, relevant public or private transactions, valuations for publicly traded companies, and/or other measures, and consideration of any other pertinent information including the types of securities held and restrictions on disposition. The amount determined to be fair value may incorporate management's own assumptions (including appropriate risk adjustments for non-performance and lack of marketability). For certain financial instruments carried at cost, the carrying amounts approximate to fair value due to the short term nature of these instruments. Such instruments include, premiums receivable, reinsurance balances receivable, other receivables, reinsurance balances payable and other short term liabilities.

Refer to Notes 5 and 7 for further information on the fair value of financial assets and liabilities.

## 5. RISK MANAGEMENT

As an insurance company, the Group is concerned about the risks inherent in its business activities (insurance risk) and the risks associated with the management of the financial assets and liabilities (financial risk) which support the operational activities. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management structure. The Group has established the Technical Review and Risk Compliance Committee, and the Finance and Investment Committee to ensure that management has a system which details the risk policies, procedures, measurement, reporting and compliance. The Group's Internal Audit reviews the risk management policies and processes and reports directly to the Audit Committee. The Audit Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks that face the Group. The committees report regularly to the Board of Directors on their activities. The Group has exposures to risks that may develop in each class of business within each operating segment and could have a material impact upon the Group's financial position.

### INSURANCE RISK

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, the risk is random and therefore unpredictable. Risk factors that affect insurance are many and include the lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered. The Group insures the risks of entities within The Bahamas and the Cayman Islands. There is a concentration of insurance risk in those territories. Below is a discussion of insurance risks specific to the lines of coverage provided by the operating segments within the Group.

**Property and casualty insurance risks**

Property risks are comprised of physical damage to property. Property policies are underwritten by reference to the commercial replacement value of the properties and content insured. Casualty risks are comprised of personal injury from motor claims, public liability, employers' liability, workmen's compensation and personal liability coverage.

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For the Group's property and casualty insurance contracts, significant risk exposure arises from low frequency, high severity events such as hurricanes. Single events, such as flooding and fires may also generate significant claims. Claim payment limits are always included to cap the amount payable on occurrence of the insured event. The costs of rebuilding properties, replacement or indemnity for contents are the key factors that influence the level of claims under these policies. The frequency and severity of claims can be affected by several factors with the single most significant event being a catastrophic event. The Group manages this risk through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. Underwriting limits are in place to enforce appropriate risk selection criteria. The Group actively manages and pursues early settlement of all claims to reduce its exposure to unpredictable developments. It has a dedicated in-house claims department and uses third party loss adjusters as necessary. The Company will, where necessary, appoint lawyers to act on the Company's behalf in respect of serious bodily injury claims thus ensuring settlements and avoiding claims development.

The Group follows the policy of underwriting and reinsuring contracts of insurance, which generally limit the liability for any one risk. In addition, catastrophe reinsurance is obtained to limit liability to a maximum of 10% of the Group's capital and reserves in the event of a series of claims arising out of a single occurrence. The Group is exposed to contractual disputes with its reinsurers and the possibility of default by its reinsurers. The Group is also exposed to the credit risk assumed in fronting arrangements and to potential reinsurance constraints. The Group's strategy is to select reinsurers with the best combination of financial strength, price and capacity. In the event that the Group's reinsurers were unable to meet their obligations under the reinsurance programs in place, the Group would still be obligated to pay all claims made under the insurance policies it issues, but would only receive reimbursement to the extent that the reinsurers could meet their above mentioned obligations. Management does not anticipate that there will be any issues with the collection of amounts due from reinsurers as they become due, and is not aware of any disputes with reinsurers, overdue amounts or any specific credit issues.

**Health and group life insurance risks**

The most significant factors that could increase the overall frequency of claims relating to health and group life insurance contracts are epidemics or widespread changes in lifestyle, resulting in earlier or more claims than expected. The reinsurance program used by the Group is reviewed and approved by the Technical Review and Risk Compliance Committee on an annual basis.

**FINANCIAL RISK**

The Group is exposed to financial risk through its financial assets and liabilities. The components of financial risk that have an impact on the Group are credit risk, market risk and liquidity risk. Market risk exposure results from adverse movements in market rates and prices and as a result the Group is exposed to interest rate risk, foreign currency risk and price risk. Financial risk is a significant risk for the Group's operations. The risk framework combines investment policies, limits, stress tests and regular monitoring to control the nature and level of financial risk and to ensure adherence to Group and regulatory policies and guidelines. The following table reconciles financial assets and financial liabilities to the Group's statement of financial position:

| | | **2015** | | **2014** |
|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | |
| Cash and term deposits | $ | 17,495,370 | $ | 22,956,188 |
| Investments: | | | | |
| Held-to-maturity | | 8,218,000 | | 6,459,000 |
| At fair value through profit or loss | | 11,351,119 | | 12,331,147 |
| Available-for-sale | | 30,204,447 | | 29,548,971 |
| Loans and receivables: | | | | |
| Trade accounts receivable, net | | 24,704,364 | | 24,306,344 |
| Other receivables* | | 2,185,039 | | 1,363,842 |
| Total financial assets | | 94,158,339 | | 96,965,492 |
| Non - financial assets | | 89,370,066 | | 92,747,647 |
| **Total assets** | **$** | **183,528,405** | **$** | **189,713,139** |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **FINANCIAL LIABILITIES:** | | | | |
| Payables at amortized cost: | | | | |
| Trade accounts payable, accrued expenses | | | | |
| and other liabilities | $ | 5,634,355 | $ | 8,975,573 |
| Bonds and loan payable | | 16,977,584 | | 20,057,332 |
| Total financial liabilities | | 22,611,939 | | 29,032,905 |
| Non - financial liabilities | | 100,271,551 | | 104,561,763 |
| **Total liabilities** | **$** | **122,883,490** | **$** | **133,594,668** |

* excludes prepaid expenses of $1,017,732 (2014: $559,231)

**CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Key areas where the Group is exposed to credit risk are in the cash and cash equivalents, investment portfolios, reinsurance receivables, premiums receivable, and other receivables. The Group's investment policy permits the Group to invest in fixed income securities, equity securities, private placements of financial institutions, term deposits, and to limit exposure to any one issuer. The Group's deposits are placed with well-known high quality financial institutions. Policies and guidelines are in place to limit the exposure faced by the Group. The Group is exposed to credit risk with respect to the amounts recoverable from its reinsurers. The Group's liability as primary insurer is not discharged if a reinsurer defaults on the obligation to pay. The Technical Review and Risk Compliance Committee ensures that management assesses the creditworthiness of all reinsurers by reviewing credit ratings as determined by independent rating agencies and other publicly available financial information. The Group has approved limits for the maximum participation of any one reinsurer in its reinsurance program. Reinsurance coverage is placed with a number of major international third party reinsurers, including underwriting members of Lloyd's, with credit ratings of A- or higher from A.M. Best or Standard & Poor's. The concentration of credit risk is also monitored to minimize the Group's exposure to significant losses from reinsurer insolvency.

The following assets of the Group are exposed to credit risk:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Held-to-maturity debt securities: | | | | |
| Bahamas Government Registered Stocks | $ | 8,218,000 | $ | 6,459,000 |
| Available-for-sale securities: | | | | |
| Fixed income debt securities | | 23,308,714 | | 22,458,505 |
| Mutual funds | | 4,810,233 | | 5,004,966 |
| Preference shares | | 2,085,500 | | 2,085,500 |
| Loans and receivables: | | | | |
| Trade accounts receivable | | 26,338,562 | | 26,872,389 |
| Other receivables | | 2,185,039 | | 1,363,842 |
| Reinsurers' share of provision for unpaid claims | | 25,201,769 | | 25,140,965 |
| Cash and term deposits | | 17,495,370 | | 22,956,188 |
| **Total** | **$** | **109,643,187** | **$** | **112,341,355** |

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

Debt securities are analyzed in the table below using Standard & Poor's ("S&P") ratings (or an equivalent rating when not available from S&P).

| | 2015 | 2014 |
|---|---|---|
| AA | $ 3,096,069 | $ 2,655,293 |
| A | 5,699,627 | 7,972,922 |
| BBB | 16,371,563 | 13,211,493 |
| Below BBB or Not rated | 6,359,455 | 5,077,797 |
| **Total debt securities** | **$ 31,526,714** | **$ 28,917,505** |

Financial and other assets exposed to credit risk that are neither past due nor impaired, past due but not impaired and those that are impaired are analyzed in the table below:

| At December 31, 2015 | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
|---|---|---|---|---|
| Held-to-maturity debt securities | $ 8,218,000 | $ - | $ - | $ 8,218,000 |
| Available-for-sale debt securities | 30,204,447 | - | - | 30,204,447 |
| Loans and receivables: | | | | |
| Trade accounts receivable | 18,093,436 | 6,610,928 | 1,634,198 | 26,338,562 |
| Other receivables | 2,185,039 | - | - | 2,185,039 |
| Reinsurers' share of provision for | | | | |
| unpaid claims | 25,201,769 | - | - | 25,201,769 |
| Cash and term deposits | 17,495,370 | - | - | 17,495,370 |
| **Total assets exposed to credit risk** | **$ 101,398,061** | **$ 6,610,928** | **$ 1,634,198** | **$ 109,643,187** |

| At December 31, 2014 | Neither past due nor impaired | Past due but not impaired | Impaired | Total |
|---|---|---|---|---|
| Held-to-maturity debt securities | $ 6,459,000 | $ - | $ - | $ 6,459,000 |
| Available-for-sale debt securities | 29,548,971 | - | - | 29,548,971 |
| Loans and receivables: | | | | |
| Trade accounts receivable | 16,700,524 | 7,605,820 | 2,566,045 | 26,872,389 |
| Other receivables | 1,363,842 | - | - | 1,363,842 |
| Reinsurers' share of provision for | | | | |
| unpaid claims | 25,140,965 | - | - | 25,140,965 |
| Cash and term deposits | 22,956,188 | - | - | 22,956,188 |
| **Total assets exposed to credit risk** | **$ 102,169,490** | **$ 7,605,820** | **$ 2,566,045** | **$ 112,341,355** |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above. The Group does not hold collateral as security.

**INTEREST RATE RISK**

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. This is primarily a concern with fixed and fluctuating financial instruments, which the Group intends to hold for the long-term. The Group's investment in fixed income debt securities, money market funds, cash and cash equivalents, and its loan and bonds payables are all subject to interest rate risk. Fluctuations in interest rates impact the level of gains and losses on the Group's interest bearing financial instruments. The coupon rates associated with the fixed income debt securities held by the Group range from 2.75% to 7.00% (2014: 2.60% to 8.50%). The underlying debt securities of the money market fund may be affected by changes in interest rates. The Group's loan payable is at a rate of 1.50% above U.S. prime rate (effective rate: 5.00%). Interest on the Series I and II bonds payable are at B$ prime rate plus 1.75% and 2.00%, respectively (effective rate 6.50% and 6.75%, respectively). The Group's investment income will move with interest rates over the medium to long term with short term interest rate fluctuations creating unrealized gain or losses in other comprehensive income. The average interest yields of investments held during the year are as follows:

| | |
|---|---|
| Debt securities | 4.67% (2014: 5.09%) |
| Cash, term deposits and money market funds | 1.08% (2014: 1.39%) |

**FOREIGN CURRENCY RISK**

Foreign currency risk relates to the Group operating in different currencies and converting non-Bahamian earnings at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The Group is not directly exposed to foreign currency risk, as investments are denominated in Bahamian dollars and US dollars. The Group's investments in The Bahamas are denominated in Bahamian dollars, which is fixed to the US dollar at the following rate: B$1 = US$1. CFI has investments denominated in US dollars. The Cayman Island dollar is fixed to the US$ at the following rate: CI$1 = US$1.20, at the date of the consolidated statement of financial position. The Group is indirectly exposed to foreign currency risk, where it holds investments in mutual funds. The underlying investments of the mutual funds could be denominated in foreign currencies, resulting in exposure to fluctuations in foreign exchange rates.

**PRICE RISK**

The Group is subject to price risk on its equity securities due to changes in market values. One of the primary objectives of the Group's risk management policy is to mitigate potential adverse impacts of market movements.

**LIQUIDITY RISK**

Liquidity risk is the risk that the Group may have difficulty liquidating its positions due to existing or unforeseen market constraints to meet obligations associated with financial instruments. In respect of catastrophic events, the Group is exposed to liquidity risk associated with the timing differences between cash flows and expected reinsurance recoveries to meet its insurance liability obligation. Most of the Group's investments are either in a market that is not highly active or do not have a market and therefore may not be readily realizable. As a result, the Group may not be able to quickly liquidate its investments at an amount close to their fair value in order to meet liquidity requirements. The Group mitigates this risk by maintaining significant holdings in cash and term deposits and also ensures that there are set guidelines for asset allocations, portfolio limit structures and maturity profiles of investments. The following tables indicate the timing of undiscounted cash flows arising from financial liabilities as at December 31, 2015 and 2014:

| | | Cash flows | | |
|---|---|---|---|---|
| **2015 Financial liabilities** | **Total** | **< 1 year** | **1 - 5 years** | **> 5 years** |
| Accrued expenses and | | | | |
| other liabilities | $ 2,925,127 | $ 2,883,037 | $ 42,090 | $ - |
| Trade accounts payable | 2,709,228 | 2,709,228 | - | - |
| Unpaid claims | 44,144,391 | 14,433,282 | 16,554,940 | 13,156,169 |
| Less: unpaid claims recoverable from reinsurers | (25,201,769) | (6,801,763) | (9,638,205) | (8,761,801) |
| Loan payable | 1,729,146 | 554,016 | 1,175,130 | - |
| Bonds payable | 15,248,438 | 248,438 | 7,500,000 | 7,500,000 |
| **Total undiscounted cash flows** | **$ 41,554,561** | **$ 14,026,238** | **$ 15,633,955** | **$ 11,894,368** |

FOR THE YEAR ENDED DECEMBER 31, 2015 - EXPRESSED IN BAHAMIAN DOLLARS

| | | Cash flows | | |
|---|---|---|---|---|
| **2014 Financial liabilities** | **Total** | **< 1 year** | **1 - 5 years** | **> 5 years** |
| Accrued expenses and | | | | |
| other liabilities | $ 2,665,075 | $ 2,623,558 | $ 41,517 | $ - |
| Trade accounts payable | 6,310,498 | 6,310,498 | - | - |
| Unpaid claims | 43,533,048 | 12,493,948 | 16,826,268 | 14,212,832 |
| Less: unpaid claims recoverable from reinsurers | (25,140,965) | (5,690,364) | (10,035,282) | (9,415,319) |
| Loan payable | 4,808,894 | 406,453 | 1,836,036 | 2,566,405 |
| Bonds payable | 15,248,438 | 248,438 | - | 15,000,000 |
| **Total undiscounted cash flows** | **$ 47,424,988** | **$ 16,392,531** | **$ 8,668,539** | **$ 22,363,918** |

**SENSITIVITY ANALYSIS**

The Group predominantly funds its net insurance liabilities through its cash and term deposits generated in the normal course of its operations. In the event of a catastrophe, the net insurance liabilities may be required to be funded through the Group's portfolio of investments. Insurance liabilities are calculated using historical claims data to determine an estimate of the amount needed to provide for the ultimate expected cost of settling claims related to insured losses (both reported and unreported) that have occurred at the date of the statement of financial position. Projections are based on assumptions implicit in the historic claims development.

As such, the sensitivity of the insurance liabilities is based on the financial impact of changes to the reported loss ratio. The provision for long tail claims is determined by using the incurred loss method and loss ratio method. The loss development factors used are based on the Group's experience. The sensitivity analysis below is based on a change in one assumption while holding all other assumptions constant. The analyses assume that there is no correlation between the assumptions.

| **Sensitivity factor** | **Description of sensitivity factor applied** |
|---|---|
| Interest rates - cash and cash equivalents | The impact of a change in market interest rates by 1% |
| Underwriting expenses | The impact of a change in underwriting expenses by 5% |
| Loss ratio | The impact of a change in loss ratio by 5% |

| **December 31, 2015** | **Interest rates** | | **Underwriting expenses** | | **Loss ratio** | |
|---|---|---|---|---|---|---|
| **In $** | **+1%** | **-1%** | **+5%** | **-5%** | **+5%** | **-5%** |
| Impact on profit | 202,258 | (202,258) | (1,359,461) | 1,359,461 | (2,993,594) | 2,993,594 |
| Impact on equity | 649,449 | (649,449) | (1,359,461) | 1,359,461 | (2,993,594) | 2,993,594 |

| **December 31, 2014** | **Interest rates** | | **Underwriting expenses** | | **Loss ratio** | |
|---|---|---|---|---|---|---|
| **In $** | **+1%** | **-1%** | **+5%** | **-5%** | **+5%** | **-5%** |
| Impact on profit | 218,112 | (218,112) | (1,513,893) | 1,513,893 | (3,018,773) | 3,018,773 |
| Impact on equity | 633,757 | (633,757) | (1,513,893) | 1,513,893 | (3,018,773) | 3,018,773 |

Price risk arises primarily from changes in the value of equity investments that may be bought and sold. The Group is sensitive to price risk on its fair value through profit or loss and available-for-sale securities. These securities are managed according to the benchmarks as specified in the Group's statement of investment policy and guidelines.

The effect of a 10% increase (2014:10%) and a 10% decrease (2014:10%) in prices at the date of the statement of financial position are set out below:

| At December 31, 2015 | | Carrying Value | | Effect on profit and equity +10% | | Effect on profit and equity -10% |
|---|---|---|---|---|---|---|
| Listed on stock exchanges/markets | $ | 11,345,562 | $ | 1,134,556 | $ | (1,134,556) |
| Listed/unlisted mutual funds | | 4,810,233 | | 481,023 | | (481,023) |
| **Total** | **$** | **16,155,795** | **$** | **1,615,579** | **$** | **(1,615,579)** |
| **At December 31, 2014** | | | | | | |
| Listed on stock exchanges/markets | $ | 12,331,147 | $ | 1,233,115 | $ | (1,233,115) |
| Listed/unlisted mutual funds | | 5,004,966 | | 500,497 | | (500,497) |
| **Total** | **$** | **17,336,113** | **$** | **1,733,612** | **$** | **(1,733,612)** |

**CAPITAL MANAGEMENT**

The Group's objectives when managing Capital are:

- To safeguard the Group's ability to continue as a going concern through prudent and sustainable growth, so that it can continue to maximize returns for shareholders;
- To ensure that it maintains a strong credit rating (minimum AM Best rating of A- Excellent) and healthy capital ratios in order to support its business objectives; and
- To comply with the regulatory capital requirements in the jurisdictions in which the Group operates.

The Group actively monitors its capital requirements and is in compliance with all relevant laws, rules and regulations.

## 6. TERM DEPOSITS

Term deposits are denominated in Bahamian dollars with an average interest rate of 2.36% (2014: 2.39%) per annum at the consolidated statement of financial position date. All term deposits have maturities beyond ninety days.

## 7. INVESTMENTS

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Held-to-maturity: | | | | |
| Bahamas Government Registered Stocks - at amortized cost | | | | |
| Unrestricted | $ | 7,218,000 | $ | 5,459,000 |
| Restricted | | 1,000,000 | | 1,000,000 |
| **Total held-to-maturity** | | **8,218,000** | | **6,459,000** |
| At fair value through profit or loss: | | | | |
| Bahamas International Securities Exchange Limited (BISX) | | | | |
| 12 (2014: 12) common shares - at cost $130,556 | | | | |
| (2014: $130,556) less impairment | | 5,557 | | 5,557 |
| Commonwealth Bank Limited | | | | |
| 1,447,138 (2014: 1,643,412) common shares | | | | |
| Cost $1,791,013 (2014: $2,033,926) | | 11,345,562 | | 12,325,590 |
| **Total at fair value through profit or loss** | | **11,351,119** | | **12,331,147** |

(CONTINUED)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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| | | 2015 | | 2014 |
|---|---|---|---|---|
| Available-for-sale: | | | | |
| Fixed income debt securities, at fair value; | | | | |
| amortised cost $23,435,881 (2014: $22,290,752) | $ | 23,308,714 | $ | 22,458,505 |
| Mutual funds, at fair value; | | | | |
| cost less impairment $4,567,345 (2014: $4,797,045) | | 4,810,233 | | 5,004,966 |
| Preference shares, at fair value | | 2,085,500 | | 2,085,500 |
| **Total available-for-sale** | | **30,204,447** | | **29,548,971** |
| **Total investments** | **$** | **49,773,566** | **$** | **48,339,118** |

(CONCLUDED)

Held-to-maturity investments are recorded at amortized cost based on the effective interest rate method. These investments are variable interest rate instruments tied to Prime, with interest rates ranging from 4.00% to 4.94% per annum (2014: 4.00% to 4.94%) and scheduled maturities between 2017 and 2030 (2014: 2015 and 2030) at the date of the consolidated statement of financial position.

The investments are carried at amortized cost as the Group has the intent and ability to hold them to maturity. In 2011, in accordance with the Insurance Act 2005 (Amended 2009), and regulations 61 and 62 of the Insurance (General) Regulations 2010, the Group established a Trust Account (the "BFG Trust") in which $1,000,000 of the Bahamas Government Registered Stocks have been placed in Trust. This amount is restricted for regulatory purposes but the interest income accrues to the Group.

The investment in Commonwealth Bank Limited (the "Bank") was valued at $7.84 (2014: $7.50) per share, which is the listed price at the date of the consolidated statement of financial position on the Bahamas International Securities Exchange ("BISX"). As a result, the Group recorded an unrealized gain of $492,027 (2014: $969,613).

The amortized cost and fair value of available-for-sale fixed income debt securities held at December 31, 2015 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to repay obligations early without repayment penalties. Interest rates range from 2.75% to 7.00% (2014: 2.60% to 8.50%) per annum at the date of the consolidated statement of financial position.

| | 2015 | | | | 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Amortized Cost** | | **Fair Value** | | **Amortized Cost** | | **Fair Value** |
| **Available-for-sale:** | | | | | | | | |
| Due in less than 1 year | $ | 3,700,746 | $ | 3,725,494 | $ | 3,159,208 | $ | 3,173,748 |
| Due from 1 through 5 years | | 8,420,809 | | 8,508,568 | | 9,921,612 | | 10,134,173 |
| Due after 5 years | | 11,314,326 | | 11,074,652 | | 9,209,932 | | 9,150,584 |
| **Total** | **$** | **23,435,881** | **$** | **23,308,714** | **$** | **22,290,752** | **$** | **22,458,505** |

The Group's available-for-sale fixed income debt securities are comprised of the following:

| **Available For Sale by Type** | | **2015** | | **2014** |
|---|---|---|---|---|
| Corporate debt securities | $ | 18,821,158 | $ | 18,297,111 |
| Government debt securities | | 4,467,556 | | 4,141,394 |
| Other debt securities | | 20,000 | | 20,000 |
| **Total** | **$** | **23,308,714** | **$** | **22,458,505** |

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The geographical locations of the Group's portfolio of investments are as follows:

| | | 2015 | % | | 2014 | % |
|---|---|---|---|---|---|---|
| Bahamas | $ | 32,884,250 | 66% | $ | 30,914,887 | 64% |
| USA | | 7,788,121 | 16% | | 9,622,730 | 20% |
| Europe | | 2,119,400 | 4% | | 1,645,232 | 4% |
| United Kingdom | | 2,028,987 | 4% | | 1,595,492 | 3% |
| Asia | | 1,984,716 | 4% | | 1,457,328 | 3% |
| Australia | | 1,549,842 | 3% | | 1,586,389 | 3% |
| Caribbean | | 533,040 | 1% | | 540,770 | 1% |
| South Africa | | 458,430 | 1% | | 493,424 | 1% |
| Canada | | 426,780 | 1% | | 482,866 | 1% |
| **Total** | **$** | **49,773,566** | **100%** | **$** | **48,339,118** | **100%** |

Reconciliation of movements in the balance of investments is provided below:

| | | Held-to-maturity | | Fair value through profit or loss | | Available-for-sale | | Total |
|---|---|---|---|---|---|---|---|---|
| **At December 31, 2013** | **$** | **4,459,000** | **$** | **12,528,163** | **$** | **23,924,008** | **$** | **40,911,171** |
| Cost of investments purchased | | 2,000,000 | | - | | 10,588,363 | | 12,588,363 |
| Proceeds from sales and maturities | | - | | (1,195,214) | | (4,641,547) | | (5,836,761) |
| Amortization of premiums / discounts on bonds (Note 20) | | - | | - | | (185,196) | | (185,196) |
| Realized gains (losses) on sales of investments (Note 20) | | - | | 28,585 | | (2,816) | | 25,769 |
| Net change in fair value of investments | | - | | 969,613 | | (133,841) | | 835,772 |
| **At December 31, 2014** | | **6,459,000** | | **12,331,147** | | **29,548,971** | | **48,339,118** |
| Cost of investments purchased | | 1,990,000 | | - | | 5,641,268 | | 7,631,268 |
| Proceeds from sales and maturities | | (231,000) | | (1,487,484) | | (4,614,633) | | (6,333,117) |
| Amortization of premiums / discounts on bonds (Note 20) | | - | | - | | (168,176) | | (168,176) |
| Realized gains on sales of investments (Note 20) | | - | | 15,429 | | 23,928 | | 39,357 |
| Net change in fair value of investments | | - | | 492,027 | | (226,911) | | 265,116 |
| **At December 31, 2015** | **$** | **8,218,000** | **$** | **11,351,119** | **$** | **30,204,447** | **$** | **49,773,566** |

Management believes that there is no objective evidence of impairment of its investment portfolio as there has not been a significant or prolonged decline in the fair value of any of its securities.

**FAIR VALUE MEASUREMENT**

In accordance with IFRS 13 Financial Instruments: Disclosure, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and are actively traded on recognized exchanges.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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In addition to the measurement hierarchy, financial instruments which have significant unobservable inputs (classified as Level 3) require the disclosures on the transfers into and out of Level 3, a reconciliation of the opening and closing balances, total gains and losses for the period split between those recognized in other comprehensive income, purchases, sales, issues and settlements, and sensitivity analysis of reasonably possible changes in assumptions, if material. Disclosure is also required of the movements between different levels of the fair value hierarchy and the reason for those movements.The following table presents the Group's financial assets measured at fair value at December 31, 2015, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| **2015** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss: | | | | |
| Equity securities | $ 11,351,119 | $ - | $ - | $ 11,351,119 |
| **Total** | **11,351,119** | - | - | **11,351,119** |
| Available-for-sale financial assets: | | | | |
| Fixed income debt securities | - | 23,288,714 | 20,000 | 23,308,714 |
| Mutual funds | - | 4,810,233 | - | 4,810,233 |
| Preference shares | - | 2,085,500 | - | 2,085,500 |
| **Total** | **-** | **30,184,447** | **20,000** | **30,204,447** |
| **Total assets measured at fair value** | **$ 11,351,119** | **$ 30,184,447** | **$ 20,000** | **$ 41,555,566** |

There were no transfers between the various levels during the year. The following table presents the Group's financial assets measured at fair value at December 31, 2014, by the level in the fair value hierarchy into which the fair value measurement is categorized:

| **2014** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| Financial assets designated at fair value through profit or loss: | | | | |
| Equity securities | $ 12,331,147 | $ - | $ - | $ 12,331,147 |
| **Total** | **12,331,147** | - | - | **12,331,147** |
| Available-for-sale financial assets: | | | | |
| Fixed income debt securities | - | 22,438,505 | 20,000 | 22,458,505 |
| Mutual funds | - | 4,962,096 | 42,870 | 5,004,966 |
| Preference shares | - | 2,085,500 | - | 2,085,500 |
| **Total** | **-** | **29,486,101** | **62,870** | **29,548,971** |
| **Total assets measured at fair value** | **$ 12,331,147** | **$ 29,486,101** | **$ 62,870** | **$ 41,880,118** |

There were no transfers between the various levels during 2014. The following table presents the changes in Level 3 instruments during the year:

| | **2015** | **2014** |
|---|---|---|
| Balance at January 1 | $ 62,870 | $ 83,865 |
| Proceeds from sale of investments | (38,458) | (20,118) |
| Realized loss on sale of investment | (17,150) | (2,816) |
| Change in fair value | 12,738 | 1,939 |
| **Balance at December 31** | **$ 20,000** | **$ 62,870** |

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## 8. INVESTMENT IN ASSOCIATE

The Company holds a 20% (2014: 20%) equity interest in Star General Insurance Agents & Brokers (Grand Bahama) Limited ("Star General").

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Balance at January 1 | $ | 610,947 | $ | 526,796 |
| Share of dividends declared and paid during the year | | (12,000) | | - |
| Share of net earnings for the year (Note 20) | | 20,204 | | 84,151 |
| **Balance at December 31** | **$** | **619,151** | **$** | **610,947** |
| Share of associate's unaudited statement of financial position: | | | | |
| Total assets | $ | 1,135,286 | $ | 924,057 |
| Total liabilities | | (624,135) | | (421,110) |
| Net assets | | 511,151 | | 502,947 |
| Goodwill | | 108,000 | | 108,000 |
| **Carrying value of investment in associate** | **$** | **619,151** | **$** | **610,947** |
| Share of associate's unaudited statement of comprehensive income: | | | | |
| **Revenues** | **$** | **525,969** | **$** | **427,370** |
| **Net income** | **$** | **20,204** | **$** | **84,151** |

Investment in associate includes $108,000 (2014: $108,000) in goodwill. At December 31, 2015 the recoverable amount exceeded the carrying amount of the investment in associate, accordingly no provision for impairment was considered necessary.

## 9. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable, which is shown net of provision for bad debts, is comprised of:

- amounts receivable from insurance agents that have signed agency agreements with the Group insurers ("insurer trade receivables"),
- clients of the Group's agency subsidiaries ("policyholders' receivables"), and
- amounts receivable from reinsurers based on the benefits the Group is entitled to under its reinsurance contracts held ("reinsurers' receivables").

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Insurer trade receivables | $ | 13,622,623 | $ | 14,797,794 |
| Policyholders' receivables | | 11,949,285 | | 11,556,433 |
| Reinsurers' receivables | | 766,654 | | 518,162 |
| | | 26,338,562 | | 26,872,389 |
| Provision for bad debts: | | | | |
| Balance at January 1 | | 2,566,045 | | 2,146,982 |
| Increase in provision for the year | | 462,754 | | 419,063 |
| Bad debt written off during the year | | (1,394,601) | | - |
| Balance at December 31 | | 1,634,198 | | 2,566,045 |
| **Trade accounts receivable, net** | **$** | **24,704,364** | **$** | **24,306,344** |

| Ageing of trade accounts receivable, net is as follows: | | 2015 | | 2014 |
|---|---|---|---|---|
| Less than 3 months | $ | 18,093,436 | $ | 16,700,524 |
| 3 - 6 months | | 4,017,554 | | 4,439,586 |
| 6 months - 1 year | | 2,593,374 | | 2,954,284 |
| Over 1 year | | - | | 211,950 |
| | **$** | **24,704,364** | **$** | **24,306,344** |

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## 10. DEFERRED/UNEARNED PREMIUMS AND COMMISSION COSTS

| | Insurance Assets | | Insurance Liabilities | |
|---|---|---|---|---|
| | Deferred Reinsurance Premiums | Deferred Commission Costs | Unearned Premiums | Unearned Commission Income |
| **Balance at January 1, 2014** | **$ 39,547,385** | **$ 5,123,837** | **$ (55,546,157)** | **$ (8,405,409)** |
| Portfolio transfer out | 483,777 | - | - | - |
| Movement during the year | (3,118,772) | 14,528 | 2,949,268 | (26,417) |
| **Balance at December 31, 2014** | **36,912,390** | **5,138,365** | **(52,596,889)** | **(8,431,826)** |
| Movement during the year | (4,071,387) | (380,358) | 4,784,801 | 116,754 |
| **Balance at December 31, 2015** | **$ 32,841,003** | **$ 4,758,007** | **$ (47,812,088)** | **$ (8,315,072)** |

## 11. UNPAID CLAIMS AND CLAIMS INCURRED

| | Gross | Reinsurance | Net |
|---|---|---|---|
| **Unpaid claims at December 31, 2013** | **$ 38,459,480** | **$ (20,689,232)** | **$ 17,770,248** |
| Portfolio transfer out | - | (30,948) | (30,948) |
| Claims incurred | 43,436,986 | (17,629,452) | 25,807,534 |
| Claims paid | (38,363,418) | 13,208,667 | (25,154,751) |
| **Unpaid claims at December 31, 2014** | **43,533,048** | **(25,140,965)** | **18,392,083** |
| Claims incurred | 45,360,950 | (18,024,819) | 27,336,131 |
| Claims paid | (44,749,607) | 17,964,015 | (26,785,592) |
| **Unpaid claims at December 31, 2015** | **$ 44,144,391** | **$ (25,201,769)** | **$ 18,942,622** |

The following tables show the development of claims over a period of time on a gross basis, and also shows the cumulative incurred claims, including both notified and IBNR claims for each successive accident year.

| **P&C** | **2011** | **2012** | **2013** | **2014** | **2015** | **Total** |
|---|---|---|---|---|---|---|
| Gross claims incurred at end of reporting year | $ 55,935,718 | $ 28,308,565 | $ 22,711,266 | $ 23,695,599 | $ 30,382,164 | |
| One year later | 60,976,921 | 33,412,374 | 27,080,120 | 23,168,363 | - | |
| Two years later | 60,771,109 | 29,594,947 | 26,278,441 | - | - | |
| Three years later | 61,225,619 | 29,546,836 | - | - | - | |
| Four years later | 61,615,407 | - | - | - | - | |
| Total incurred to date | 61,615,407 | 29,546,836 | 26,278,441 | 23,168,363 | 30,382,164 | |
| Cumulative payments to date | (59,810,015) | (26,290,199) | (22,203,462) | (16,159,280) | (17,996,258) | |
| Liability included in the consolidated statement of financial position | 1,805,392 | 3,256,637 | 4,074,979 | 7,009,083 | 12,385,906 | 28,531,997 |
| Reserves for prior years | | | | | | 13,042,794 |
| **Total unpaid claims for P&C business including amount recoverable from reinsurer** | | | | | | **$ 41,574,791** |

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| H&L | 2011 | 2012 | 2013 | 2014 | 2015 | Total |
|---|---|---|---|---|---|---|
| Gross claims incurred at end of reporting year | $ 18,680,377 | $ 16,193,273 | $ 17,060,494 | $ 16,369,190 | $ 17,853,743 | |
| One year later | 18,390,587 | 15,634,408 | 16,777,220 | 15,957,295 | - | |
| Total incurred to date | 18,390,587 | 15,634,408 | 16,777,220 | 15,957,295 | 17,853,743 | |
| Cumulative payments to date | (18,390,587) | (15,634,408) | (16,679,620) | (15,957,295) | (15,561,743) | |
| Liability included in the consolidated statement of financial position | - | - | 97,600 | - | 2,292,000 | 2,389,600 |
| Reserves for prior years | | | | | | 180,000 |
| **Total unpaid claims for H&L business including amount recoverable from reinsurer** | | | | | | **$ 2,569,600** |
| **Total unpaid claims including amount recoverable from reinsurer in the consolidated statement of financial position** | | | | | | **$ 44,144,391** |

## 12. PROPERTY AND EQUIPMENT

| 2015 | Land | Buildings | Construction in Progress | Furniture & Equipment | Leasehold Improvements and Others | Computer Software | Total |
|---|---|---|---|---|---|---|---|
| COST/VALUATION: | | | | | | | |
| At January 1, 2015 | $ 4,758,816 | $ 7,361,945 | $ 126,419 | $ 3,102,306 | $ 1,725,075 | $ 3,753,083 | $ 20,827,644 |
| Additions | - | - | 522,491 | 209,631 | 28,331 | 58,323 | 818,776 |
| At December 31, 2015 | 4,758,816 | 7,361,945 | 648,910 | 3,311,937 | 1,753,406 | 3,811,406 | 21,646,420 |
| ACCUMULATED DEPRECIATION: | | | | | | | |
| At January 1, 2015 | $ - | $ 738,132 | $ - | $ 2,031,816 | $ 1,608,468 | $ 3,661,390 | $ 8,039,806 |
| Charge for the year | - | 237,538 | - | 336,274 | 44,945 | 42,550 | 661,307 |
| At December 31, 2015 | - | 975,670 | - | 2,368,090 | 1,653,413 | 3,703,940 | 8,701,113 |
| **Carrying amount 2015** | **$ 4,758,816** | **$ 6,386,275** | **$ 648,910** | **$ 943,847** | **$ 99,993** | **$ 107,466** | **$ 12,945,307** |

| 2014 | Land | Buildings | Construction in Progress | Furniture & Equipment | Leasehold Improvements and Others | Computer Software | Total |
|---|---|---|---|---|---|---|---|
| COST/VALUATION: | | | | | | | |
| At January 1, 2014 | $ 2,493,750 | $ 7,361,945 | $ - | $ 2,711,727 | $ 1,720,977 | $ 3,717,494 | $ 18,005,893 |
| Additions | 2,265,066 | - | 126,419 | 390,579 | 4,098 | 35,589 | 2,821,751 |
| At December 31, 2014 | 4,758,816 | 7,361,945 | 126,419 | 3,102,306 | 1,725,075 | 3,753,083 | 20,827,644 |
| ACCUMULATED DEPRECIATION: | | | | | | | |
| At January 1, 2014 | $ - | $ 503,346 | $ - | $ 1,679,729 | $ 1,514,530 | $ 3,179,117 | $ 6,876,722 |
| Charge for the year | - | 234,786 | - | 352,087 | 93,938 | 482,273 | 1,163,084 |
| At December 31, 2014 | - | 738,132 | - | 2,031,816 | 1,608,468 | 3,661,390 | 8,039,806 |
| **Carrying amount 2014** | **$ 4,758,816** | **$ 6,623,813** | **$ 126,419** | **$ 1,070,490** | **$ 116,607** | **$ 91,693** | **$ 12,787,838** |

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During 2014, CFI acquired land to develop its own purpose built corporate headquarters. The development process is in its preliminary stages, and the costs incurred to December 31, 2015 have been recorded under construction in progress. The development is expected to be completed in 2017 and the estimated cost, including the land, is projected to be approximately $9,840,000.

## 13. LOAN PAYABLE

In May 2014, the Board of Directors of CFI resolved to raise additional share capital by way of a rights issue to its existing shareholders. During June 2014, CFI offered a rights issue of 1 share for every 3 shares held to all holders of its ordinary voting shares for a total offering of 500,000 additional shares. One minority shareholder took up 125 shares at a cost of $1,241. BFHIL acquired 499,875 shares to increase its equity holding from 83.52% to 87.64%. BFHIL's participation in the rights issue was funded by a non-revolving 10-year demand loan totaling $5,000,000 from The Cayman National Bank at a rate of 1.5% above U.S. prime rate (effective rate – 5.00% (2014: 4.75%)). As a prerequisite of the facility, CFI entered into a Deed of Guarantee guaranteeing the payment of the loan, all interest and all other sums payable in respect of the loan facility. Pursuant to a pledge agreement, CFI has provided to Cayman National Bank, security interest over its investments as collateral for the credit facility. Consequently, CFI's investments have been hypothecated to the extent required to collateralize the credit facility issued to BFHIL. The balance of the new demand loan as at December 31, 2015 was $1,729,146 (2014: $4,808,894).

During 2015, BFHIL acquired 250 (2014: 100) shares from minority shareholders at a cost of $3,000 (2014: $960), further increasing its holding to 87.65%. The effect of this increase in BFHIL's ownership resulted in a decrease of $870 (2014: increase of $281) in contributed surplus and a corresponding change in non-controlling interest, and is reflected in the consolidated statement of changes in equity.

## 14. INTANGIBLE ASSETS AND GOODWILL

| | | | Intangible Assets | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **Goodwill** | | **Finite Life** | | **Indefinite Life** | | **Total** |
| **Balance at January 1, 2014** | **$** | **7,125,088** | **$** | **2,060,245** | **$** | **2,592,559** | **$** | **11,777,892** |
| Sale of General Insurance Portfolio | | - | | (43,333) | | - | | (43,333) |
| Amortization | | - | | (136,648) | | - | | (136,648) |
| **Balance at December 31, 2014** | | **7,125,088** | | **1,880,264** | | **2,592,559** | | **11,597,911** |
| Acquisition of General Insurance Portfolio | | - | | 522,500 | | - | | 522,500 |
| Amortization | | - | | (133,314) | | - | | (133,314) |
| **Balance at December 31, 2015** | **$** | **7,125,088** | **$** | **2,269,450** | **$** | **2,592,559** | **$** | **11,987,097** |

In December 2015, NUA acquired the general insurance portfolio of one of its exclusive sub-agents for a consideration of $522,500. This acquisition of customer relationships is expected to generate benefits to NUA over a finite period of time, and is therefore amortized using the straight-line method over its estimated useful life of fifteen years.

In August 2014, NUA sold one of its portfolios at a net gain of $70,647, as follows:

| | | |
|---|---|---|
| Proceeds from sale of general insurance portfolio | $ | 113,980 |
| Carrying value of intangible asset | | (43,333) |
| Net gain on sale of general insurance portfolio | **$** | **70,647** |

Intangible assets with finite useful lives are amortized using the straight-line method over their estimated useful lives, and amortization expense is included in general and administrative expenses in the consolidated statement of profit or loss.

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Intangible assets with indefinite lives and goodwill acquired through business combinations have been allocated to two cash-generating units, which are also operating and reportable segments, for impairment testing as follows:

| | | |
|---|---|---|
| Bahamas' cash-generating unit | $ | 7,685,717 |
| Cayman's cash-generating unit | | 2,031,930 |
| | **$** | **9,717,647** |

The Group performed its annual impairment test as at December 31, 2015. The recoverable amounts of both the Bahamas and Cayman's cash-generating units have been determined by the fair value less costs to sell calculation using an earnings approach based on a multiple of historical results. As the recoverable amounts exceeded the carrying amounts, management did not identify any impairment for either cash-generating unit.

## 15. BONDS PAYABLE

On October 15, 2010, the Group effected a private offering of Series I & II Redeemable Cumulative Variable Rate Corporate Bonds ("the bonds"). The net proceeds were used for general corporate purposes. Interest on the bonds are payable at B$ prime rate plus 1.75% and 2.00% respectively. The bonds rank equally among themselves and with all other existing and future unsubordinated and unsecured debt of the Company. The bonds rank senior to the Company's existing and all future preference and ordinary shares. Maturity dates are as follows:

- Series I bonds maturing October 15, 2020, in the outstanding principal amount of $7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the fifth anniversary date from the closing date of the issue.
- Series II bonds maturing October 15, 2025, in the outstanding principal amount of $7,500,000. The bonds, while callable only at the option of the Company, may not be called prior to the tenth anniversary date from the closing date of the issue.

The Company may at its option redeem in whole or in part any principal amount invested in the bond subject to a notice period of ninety days on any date following the expiration of the anniversary date for the respective series.

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Series I Corporate Bonds** | | | | |
| $7,500,000 at B$ prime rate + 1.75%, presently 6.50% (2014: 6.50%) per annum - Due 2020 | $ | 7,500,000 | $ | 7,500,000 |
| **Series II Corporate Bonds** | | | | |
| $7,500,000 at B$ prime rate + 2.00%, presently 6.75% (2014: 6.75%) per annum - Due 2025 | | 7,500,000 | | 7,500,000 |
| Accrued interest | | 248,438 | | 248,438 |
| **Total** | **$** | **15,248,438** | **$** | **15,248,438** |

## 16. SHARE CAPITAL

The Group's share capital is comprised as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| **Common shares** | | | | |
| Authorized: 45,000,000 (2014: 45,000,000) at $0.01 each | | | | |
| Issued and fully paid: 36,511,589 (2014: 36,505,471) par | | | | |
| value $0.01 per share | $ | 365,116 | $ | 365,055 |
| **Preference shares** | | | | |
| Authorized: 5,000,000 (2014: 5,000,000) at $1.00 each | | | | |
| Issued and fully paid: 5,000,000 (2014: 5,000,000) par | | | | |
| value $1.00 per share | $ | 5,000,000 | $ | 5,000,000 |

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The calculation of basic earnings per share is as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Profit for the year attributable to owners of the parent | $ | 8,810,514 | $ | 9,489,114 |
| Preference shares dividend paid | | (350,000) | | (350,000) |
| Profit for the year attributable to common shareholders | | 8,460,514 | | 9,139,114 |
| Weighted average number of common shares outstanding | | 36,511,589 | | 36,161,108 |
| **Basic and diluted earnings per common share** | **$** | **0.23** | **$** | **0.25** |

There were no transactions that would dilute earnings per share.

Dividends are accounted for in the period in which they are declared by the Group's Board of Directors. During the year, dividends of $0.12 (2014: $0.10) per common share (total dividends $4,381,391 (2014: $3,616,111)) were declared and subsequently paid. The Preference Shares are non-convertible, non-voting, cumulative, redeemable "A" with a dividend rate of 7% per annum. These shares are redeemable at the option of the Company.

On November 15, 2014, the Board of Directors resolved to approve a staff share subscription offer to all full-time employees to acquire common shares of the Company. Since the Company's shares are not derived from quoted prices, the fair value applied to the shares issued was based on a recent independent valuation. On January 1, 2015, 350,481 shares were issued for total proceeds of $525,721. The shares issued included all 344,363 of the treasury shares of the Company that existed as at December 31, 2014.

## 17. GENERAL RESERVE

The Group has established a general reserve from retained earnings in the amount of $4,000,000 (2014: $4,000,000), which the Board of Directors have determined is not available for distribution.

## 18. REVALUATION RESERVE

| | | Land & Buildings | | AFS Investments | | Total |
|---|---|---|---|---|---|---|
| **Balance at January 1, 2014** | **$** | **2,870,508** | **$** | **435,155** | **$** | **3,305,663** |
| Net decrease in fair value of AFS investments | | - | | (133,841) | | (133,841) |
| **Balance at December 31, 2014** | | **2,870,508** | | **301,314** | | **3,171,822** |
| Reclassification adjustment of AFS Investment | | | | | | |
| disposed of during the year (Note 20) | | - | | (91,714) | | (91,714) |
| Net decrease in fair value of AFS investments | | - | | (135,197) | | (135,197) |
| Other comprehensive loss | | - | | (226,911) | | (226,911) |
| **Balance at December 31, 2015** | **$** | **2,870,508** | **$** | **74,403** | **$** | **2,944,911** |

In accordance with the Group's accounting policy, freehold land and buildings are subject to a revaluation exercise that is performed by an independent professional appraiser every three years. Freehold land and buildings were independently valued at September 30, 2013. The next appraisal is due in 2016.

## 19. GROSS PREMIUMS WRITTEN

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Group agents and insurers | $ | 94,850,539 | $ | 97,681,714 |
| Non-Group agents | | 46,745,430 | | 52,594,915 |
| Associate | | 1,764,788 | | 1,952,257 |
| **Total** | **$** | **143,360,757** | **$** | **152,228,886** |

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## 20. OTHER INCOME, NET

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Interest income | $ | 1,771,911 | $ | 1,694,321 |
| Dividend income | | 470,704 | | 530,276 |
| Reclassification adjustment of AFS Investment disposed of during the year (Note 18) | | 91,714 | | - |
| Share of net earnings from associate (Note 8) | | 20,204 | | 84,151 |
| Net gain on sale of general insurance portfolio (Note 14) | | - | | 70,647 |
| Other income | | 25,961 | | 41,181 |
| Realized gains on sales of investments (Note 7) | | 39,357 | | 25,769 |
| Amortization of premiums and discounts on bonds (Note 7) | | (168,176) | | (185,196) |
| **Total** | **$** | **2,251,675** | **$** | **2,261,149** |

## 21. SALARIES, BENEFITS AND BONUSES

Included in salaries, benefits and bonuses is a bonus payable to management and staff amounting to $885,834 (2014: $915,345). This amount was determined and approved by the Board of Directors.

## 22. PENSION PLAN

Employees of the Group participate in defined contribution plans registered in The Bahamas and in the Cayman Islands. These plans are administered by independent administrators and trustees and membership is mandatory for all eligible employees. Under these plans, the Group paid contributions of 3% - 5% per annum of base salary. Contributions under these plans totalled $372,722 (2014: $377,609) and are included in "Salaries, benefits and bonuses" in the consolidated statement of profit or loss.

## 23. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions and balances are as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Gross premiums written - associate | $ | 1,764,788 | $ | 1,952,257 |
| Commission expense - associate | $ | 322,502 | $ | 354,736 |
| Trade accounts receivable - associate | $ | 312,459 | $ | 272,591 |
| Directors' fees paid | $ | 364,293 | $ | 333,813 |

The trade accounts receivable - associate is secured by a guarantee. The receivable balance will be settled in cash. No expense has been recognized in the period for bad or doubtful debts in respect of the amounts owed by related parties. Key management personnel include members of the Group's management team having authority and responsibility for planning, directing and controlling the activities of the Group's operation. Compensation to key management personnel is included in salaries, benefits and bonuses in the consolidated statement of profit or loss and receivables from key management personnel is included in sundry receivables and prepayments in the consolidated statement of financial position and are as follows:

| | | 2015 | | 2014 |
|---|---|---|---|---|
| Salaries and other benefits | $ | 1,534,127 | $ | 1,609,818 |
| Post employment benefits | | 58,450 | | 61,262 |
| **Total** | **$** | **1,592,577** | **$** | **1,671,080** |
| Receivables from key management personnel | $ | 80,546 | $ | 77,941 |

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As part of its reinsurance program, the Group purchases reinsurance from Economical Mutual Insurance Company ("Economical") for motor and liability quota share. Economical holds a 20% ownership in the Group. The ceded motor and liability quota share is 50.5% and Economical's reinsurance participation is 10%.

## 24. COMMITMENTS AND CONTINGENCIES

**Commitments:** The Group has commitments relating to leased premises. The Group has leased office space with expiration terms and renewal terms extending up to five years. Lease terms vary with the last lease term expiring in 2020. The Group also has a sublease on one of the locations which expires in 2017. Rent expense for the year ended December 31, 2015 totaled $768,588 (2014: $761,988). The related sublease payments were $34,524 (2014: $30,800).

Future lease payments under the operating leases and the sublease income are as follows:

| **2015** | **< 1 year** | **1 -5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|
| Operating lease agreements and rental payments | $ 224,272 | $ 688,384 | $ - | $ 912,656 |
| Sublease payments receivable | (46,960) | (46,960) | - | (93,920) |
| **Total** | **$ 177,312** | **$ 641,424** | **$ -** | **$ 818,736** |

| **2014** | **< 1 year** | **1 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|
| Operating lease agreements and rental payments | $ 172,160 | $ 253,500 | $ - | $ 425,660 |
| Sublease payments receivable | (46,960) | (93,919) | - | (140,879) |
| **Total** | **$ 125,200** | **$ 159,581** | **$ -** | **$ 284,781** |

**Contingencies:** In the normal course of its business, the Group is involved in various legal proceedings arising out of and incidental to its insurance operations. The Group is of the opinion that litigation arising from these legal proceedings will not have a significant impact on the financial position, results of operation or cash flows of the Group.

## 25. SEGMENTED INFORMATION

In accordance with IFRS 8 Operating Segments, the Group has identified the Chief Operating Decision Maker as the Board of Directors. Key decisions on assessing performance and allocation of resources are reviewed by the Board or its sub-committees.

The Group's operations are segmented into the following business segments by geographic location:

- General Insurance / Property and Casualty (P&C)
- Health and Life (H&L)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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The segment results for the years ended December 31, 2015 and 2014 are as follows:

| | Bahamas | Cayman | | |
|---|---|---|---|---|
| | P&C | P&C | H&L | Total |
| **2015** | $ | $ | $ | $ |
| Net underwriting income | 18,333,753 | 5,155,926 | 5,010,348 | 28,500,027 |
| Depreciation of property | | | | |
| & equipment | 606,948 | 32,172 | 22,187 | 661,307 |
| Amortization of intangible assets | 133,314 | - | - | 133,314 |
| Segment Profit for the Year | 5,980,266 | 1,536,536 | 1,692,498 | 9,209,300 |
| Total segment assets | 132,844,025 | 34,321,106 | 16,363,274 | 183,528,405 |
| Total segment liabilities | 97,194,845 | 22,560,004 | 3,128,641 | 122,883,490 |
| Capital expenditure | 275,864 | 288,829 | 254,083 | 818,776 |
| **2014** | | | | |
| Net underwriting income | 17,576,474 | 5,764,953 | 5,454,651 | 28,796,078 |
| Depreciation of property | | | | |
| & equipment | 1,069,937 | 48,131 | 45,016 | 1,163,084 |
| Amortization of intangible assets | 136,648 | - | - | 136,648 |
| Segment Profit (Loss) for the Year | 5,604,955 | 2,351,570 | 2,080,378 | 10,036,903 |
| Total segment assets | 140,861,697 | 32,277,304 | 16,574,138 | 189,713,139 |
| Total segment liabilities | 108,792,113 | 21,881,412 | 2,921,143 | 133,594,668 |
| Capital expenditure | 382,300 | 1,183,134 | 1,256,317 | 2,821,751 |

## 26. SUBSEQUENT EVENT

On March 11, 2016, the Board of Directors of BFH, in accordance with the provision for early redemption as stated in the BFH's Private Placement Offering Memorandum dated September 2010, resolved to redeem 50% of the outstanding Series I Corporate Bonds (Note 15).

The Board of Directors further declared dividends of $0.05 per share for all issued and outstanding common shareholders of record on April 29, 2016.

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